

EMERALD COAST UTILITIES AUTHORITY
PENSACOLA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Prepared by:

Department of Finance
Debra Buckley
Director of Finance

INTRODUCTORY SECTION

EMERALD COAST UTILITIES AUTHORITY
PENSACOLA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	PAGE
<i>I. INTRODUCTORY SECTION</i>	
Letter of Transmittal	1 - 4
Organizational Chart.....	5
List of Principal Officials	6
Certificate of Achievement for Excellence in Financial Reporting.....	7
<i>II. FINANCIAL SECTION</i>	
Independent Auditor's Report	9 - 10
Management's Discussion and Analysis	11 - 18
Basic Financial Statements:	
Comparative Balance Sheets	20 - 21
Comparative Statements of Revenues, Expenses and Changes in Net Assets	22
Comparative Statements of Cash Flows	24 - 25
Notes to Financial Statements.....	27 - 47
Required Supplementary Information:	
Schedule of Funding Progress	49
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	51
Schedule of Revenues and Expenses Compared to Budget.....	52- 53

EMERALD COAST UTILITIES AUTHORITY
PENSACOLA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS
(Continued)

	PAGE
 <i>II. FINANCIAL SECTION (Continued)</i>	
Water and Wastewater System -	
Comparative Schedules of Assets, Liabilities and Net Assets.....	54 - 55
Comparative Schedules of Revenues, Expenses and Changes in Net Assets.....	57
Comparative Schedules of Cash Flows.....	58 - 59
Schedule of Revenues and Expenses Compared to Budget.....	60 - 61
Sanitation System -	
Comparative Schedules of Assets, Liabilities and Net Assets.....	62 - 63
Comparative Schedules of Revenues, Expenses and Changes in Net Assets.....	64
Comparative Schedules of Cash Flows.....	66 - 67
Schedule of Revenues and Expenses Compared to Budget.....	68 - 69
 <i>III. STATISTICAL SECTION - UNAUDITED</i>	
Net Assets by Component - Last Ten Fiscal Years	73
Schedules of Revenues and Expenses - Last Ten Fiscal Years	74 - 75
Outstanding Debt by Type and Per Water Customer - Last Ten Fiscal Years	76
Debt Service Coverage - Last Ten Fiscal Years	77

EMERALD COAST UTILITIES AUTHORITY
PENSACOLA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS
(Continued)

	PAGE
<i>III. STATISTICAL SECTION - UNAUDITED (Continued)</i>	
Number of Active Customers at Fiscal Year End - Last Ten Fiscal Years	78
Principal Customers	79
Principal Employers	80
Recorded Rainfall	81
Water Consumption - Last Ten Fiscal Years	82
Sewage Plant Flows - Last Ten Fiscal Years	83
Operating Indicators - Last Ten Fiscal Years	84
Miscellaneous Statistics - Last Ten Fiscal Years	85 - 88
Schedule of Insurance	90 - 94
 <i>IV. OTHER REPORTS</i>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed with <i>Government Auditing Standards</i>	95 - 96
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	97 - 98
Schedule of Findings and Questioned Costs	99 - 100
Management Letter	101- 103

This page intentionally left blank.



P. O. Box 15311 • 9255 Sturdevant Street
Pensacola, Florida 32514-0311
Ph: 850-476-5110 • fax: 850-494-7346

March 14, 2012

Citizens of Escambia County and
Members of the Board
Emerald Coast Utilities Authority
Pensacola, Florida

The management and staff of the Emerald Coast Utilities Authority (the “Authority”) are pleased to present the Comprehensive Annual Financial Report for the year ended September 30, 2011. The financial statements are audited in conformity with Chapter 166.241(1), Florida Statutes, and Chapter 10.550 of the Rules of the Auditor General of the State of Florida. Responsibility for both the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to fairly present the financial position and results of operation of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority’s financial activities have been included.

Management’s Discussion and Analysis (“MD&A”) can be found in the Financial Section immediately following the report of the independent auditors. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Authority’s management staff is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The Reporting Entity

The Authority was created by State legislation in 1981 to acquire, consolidate, manage and operate the water and wastewater systems in Escambia County, Florida. The Authority is an independent special district and is governed by a board of five members who are elected from districts located in Escambia County. The Authority employs an executive director, who is the chief executive officer of the Authority.

The Authority's service area covers most of southern Escambia County, which is located in the far northwestern part of the State of Florida. In addition to the water and wastewater utility, the Authority operates a sanitation collection utility for residential and commercial garbage and recycling.

Highlights and Initiatives

The Authority celebrated its 30th anniversary in 2011. Providing a high level of service to our customers remains a priority. The Authority continues to evaluate processes and to recommend possible pilot programs that aid customers while providing reasonable assurances of cost recovery and protection for the environment. Major accomplishments for 2011 include:

- Dedication of the \$316 million Central Water Reclamation Facility ("CWRf") on December 2, 2010. This 22.5 million gallon per day ("MGD") plant is the largest public works project in the history of Escambia County. The Authority is receiving a great deal of publicity for the construction of the advanced wastewater treatment facility, including the 2011 Global Water Reuse Project of the Year. This honor was presented by the Global Water Intelligence Agency in April 2011 at the Dorint Convention Center in Berlin, Germany.
- Removing the 20 MGD Main Street Wastewater Treatment Plant ("MSWWTP") from service after 74 years of serving Escambia County. It is expected that the dismantling of the plant, which began in September 2011, will take 9 to 12 months. Replacement of the plant eliminated the surface water discharge into Pensacola Bay.
- Dedication of the Reclaimed Water Reuse Facility at the Pensacola Beach Wastewater Treatment Plant. The water reuse program will reduce the demand on the potable water source, provide irrigation for the medians on Santa Rosa Island at a lower cost, and eliminate some of the effluent discharge into local surface waters.
- Purchase of a hydraulic hybrid refuse collection vehicle. The quieter vehicle delivers a significant thirty to forty percent reduction in emissions, a thirty percent improvement in fuel economy, and a dramatic decrease in brake-related maintenance costs while using biodegradable hydraulic oil, which is friendlier to the environment.
- Completion of the first full year of the Household Hazardous Waste ("HHW") collection program. The free program allows residential sanitation customers to call-in and request curbside pick-up of HHW items once-per-month. During 2011, 68 tons of electronics, 54 tons of appliances, and 41 tons of tires were collected. The goal of the program is to make disposal of these items more convenient and remove the temptation to dispose of these items improperly, which can harm the environment.
- Co-sponsorship of a Prescription Drug Round-Up day with the Escambia County Sheriff's Office. The one-day event brought in over 125 pounds of expired, unwanted or unused prescription drugs, for proper disposal through incineration. Our focus on this event is the benefit to water quality through the proper disposal of these materials, rather than flushing them through the sewerage system. The event was made possible through a grant from the Drug Enforcement Agency.

Financial Information

Management believes the Authority's financial condition remains strong. Despite the current economic downturn, stringent financial planning and conservative budgeting have ensured that the Authority remains fiscally sound. Customer growth remained slow due to the economic downturn, level of homeowner foreclosures, and local business closures. The demolition of the MSWWTP in downtown Pensacola and the completion of the Maritime Park, which includes a minor league baseball stadium, across the street from the former treatment plant are expected to revitalize the downtown area, bringing new businesses and residential growth to the Pensacola metropolitan area.

The Authority Board annually approves an operating budget and a five-year capital improvement budget. Budgetary controls are maintained by the Authority. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is by total appropriations. The Executive Director may approve transfers of appropriations within the budget. However, changes in total appropriations require Board approval. Budget-to-actual comparisons are provided in the Comprehensive Annual Financial Report ("CAFR") separately for the combined water and wastewater system, and for the sanitation system, as well as for the Authority as a whole. Although the water and wastewater system and the sanitation system do not meet the definition of separate "funds", the Authority has established a policy that both systems be self-supporting in accordance with sound accounting policy.

Capital construction planning entails an evaluation and ranking process that begins in advance of the operating budget process. It is the Authority's philosophy that new projects are only undertaken if current and future operating revenues are sufficient to fund the associated operating costs. Funding for the 2012 capital improvements plan is anticipated to come from the issuance of debt either from the State Revolving Loan Fund, bank loans, or bonds. The funding levels for 2013 through 2015 were based on the feasibility study completed in fiscal year 2010.

Funding for the CWRP came from various sources, including loans, grants from the Environmental Protection Agency, the State of Florida, and FEMA (for which there was a ten percent (10%) required match to be funded equally by the State and the Authority). Escambia County and the City of Pensacola are also participating in the funding. The Authority Board approved a Sewer Improvement Fee, starting in the summer of 2007, which is charged to all wastewater customers to aid in funding the debt service for the project.

Cash Management Policies and Practices. The Authority invested idle cash during the fiscal year according to investment policies adopted by the Board. Pursuant to Florida law, the policy seeks to achieve four specific objectives: protection of principal, maximization of return, provision of sufficient liquidity, and diversification of investments to control risk. Detailed information on the Authority's investments can be found in Note 2 in the Notes to the Financial Statements section.

Risk Management. The Authority is self-insured for general liability and worker's compensation claims. The Authority carries additional property and business interruption insurance for catastrophic losses. Note 13 in the Notes to the Financial Statements section, and the Schedule of Insurance in the Statistical Section provide additional information regarding the Authority's risk management program.

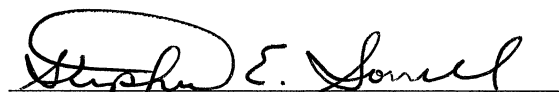
Independent Audit. State statutes require that the Authority's financial statements be audited by an independent certified public accounting firm. This requirement has been satisfied by the certified public accounting firm of Saltmarsh, Cleaveland & Gund. Their report on the Authority's financial statements is included in the financial section of this report.

Awards and Acknowledgements

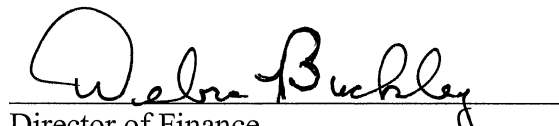
The Authority was awarded a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) for its CAFR for the fiscal year ended September 30, 2010. This is the twenty-third consecutive year the Authority has received the prestigious national award. The Certificate of Achievement recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. Preparation of this CAFR would not have been possible without the dedicated effort of the entire Finance Department staff. We would also like to thank the Board for their support and leadership in planning and conducting the financial operations of the Authority in a most responsible manner.

Respectfully submitted,

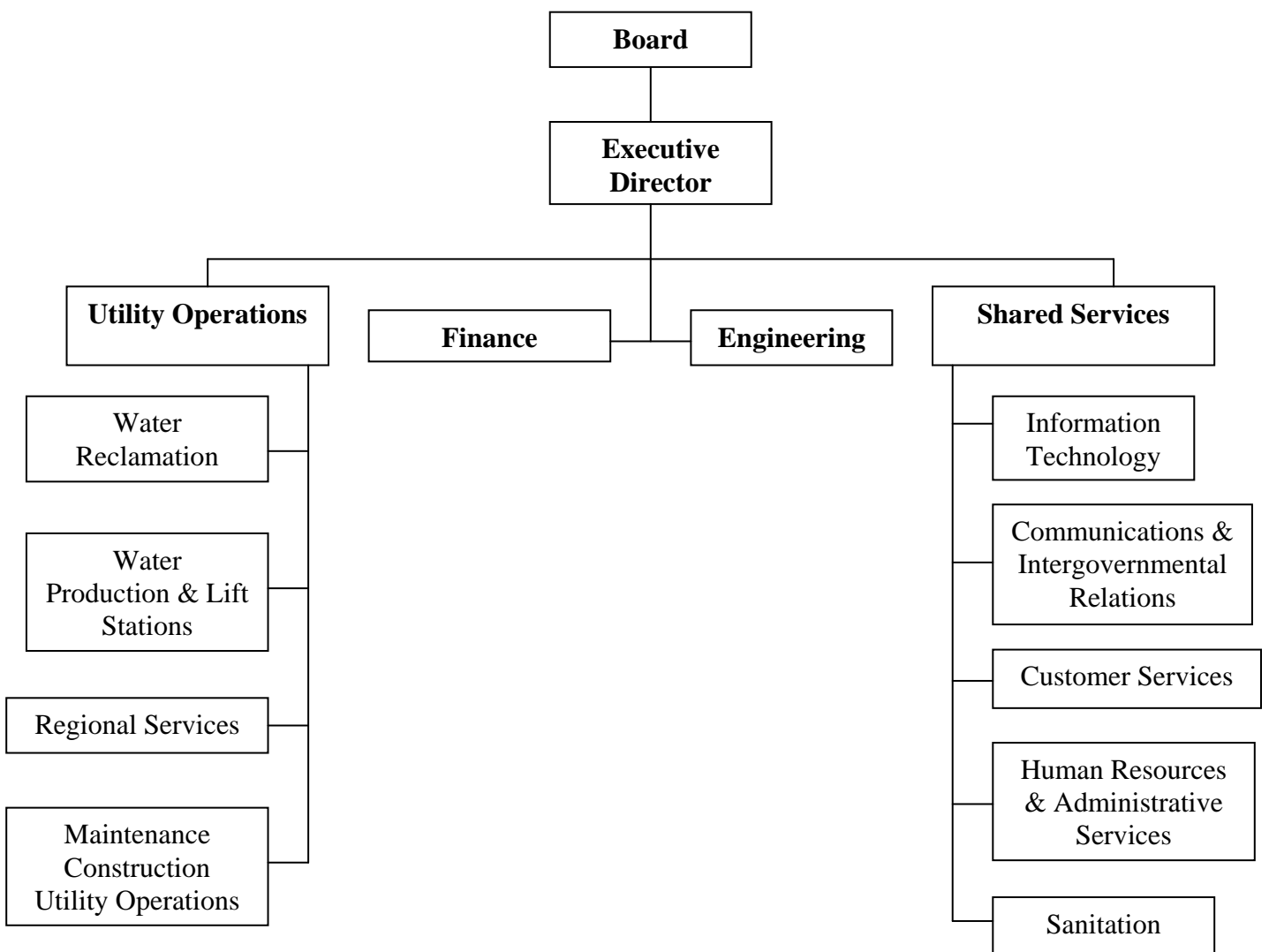


Executive Director



Director of Finance

EMERALD COAST UTILITIES AUTHORITY





P. O. Box 15311 • 9255 Sturdevant Street
Pensacola, Florida 32514-0311
Ph: 850-476-5110 • fax: 850-494-7346

PRINCIPAL OFFICIALS

Board Members

Elvin McCorvey

Larry Walker

Dale Perkins

Lois Benson

Elizabeth Campbell

Authority Officials

Stephen E. Sorrell

Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to
Emerald Coast Utilities Authority
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Linda C. Sandson

President

Jeffrey R. Emer

Executive Director

This page intentionally left blank.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Emerald Coast Utilities Authority
Pensacola, Florida

We have audited the accompanying basic financial statements of the Emerald Coast Utilities Authority as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Emerald Coast Utilities Authority, as of September 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2012 on our consideration of the Emerald Coast Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board
Emerald Coast Utilities Authority

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 18 and the Schedule of Funding Progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The introductory section, supplementary information, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Pensacola, Florida
March 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis offers readers of the Authority's financial statements an overview of the financial activities for the fiscal year ended on September 30, 2011. Please read it in conjunction with the letter of transmittal, and the financial statements with accompanying notes.

Financial Highlights

- The Authority's assets exceeded its liabilities on September 30, 2011 by \$470 million (net assets), a \$23 million decrease over the previous fiscal year. Of this amount, \$37.6 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to customers and creditors. Of the remaining \$432 million, approximately \$382 million was invested in capital assets net of related debt, while the remainder was restricted for utility plant expansion (\$1.7 million) and debt service (\$48.3 million).
- Producing assets increased \$252 million while construction in progress decreased by \$262.5 million over 2010 due to the completion of construction of the Central Water Reclamation Facility ("CWRP").
- Long-term debt increased by approximately \$48 million over fiscal year 2010. The key factor in this increase was the issuance of \$42.4 million in utility system revenue notes. Debt service coverage for 2011 was 182%, which exceeded the debt service covenants requirement of 125%.
- Operating revenue for 2011 was \$105 million compared with \$95 million in 2010, a 10.3% increase. The increase is attributed to a 7% increase in water and wastewater rates and a 1.7% increase in residential sanitation rates.
- Excluding depreciation, operating expenses only increased .45% or \$278 thousand over fiscal year 2010. This is surprising considering the Authority operated an extra wastewater plant for seven months of the fiscal year, during the transition of flows from the former Main Street Wastewater Treatment Plant ("MSWWTP") to the new CWRP.

Overview of the Annual Financial Report

The Comprehensive Annual Financial Report ("CAFR") is presented in three sections: Introductory, Financial, and Statistical. The Introductory section includes a letter of transmittal, the Authority's Organization Chart, and a list of Principal Officials. The Financial section includes Management's Discussion and Analysis, Financial Statements with accompanying notes, and the Supplementary Information schedules. The Statistical section includes selected financial, operational, and demographic information generally presented on a multi-year basis. Other reports by the auditor regarding internal accounting controls and compliance with laws and regulations are included in the final section of this report, along with the auditor's management letter.

The Authority is a single enterprise fund even though it provides various utility services. The financial statements present the financial position of the Authority using full accrual accounting methods similar to those used by private sector companies. The financial statements include a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

The **balance sheet** presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the Authority is improving or deteriorating.

The **statement of revenues, expenses, and changes in net assets** presents the results of the business activities during the reporting period and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. This statement can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the financial statements** provide required disclosures and other information essential to fully understand the data provided in the financial statements. The notes present information about the Authority's significant accounting policies, account balances and activities, material risks, obligations, commitments and contingencies.

The **supplementary information** section presents the schedule of expenditures of federal awards, the schedule of revenues and expenses compared to budget, and schedules that focus on the Water and Wastewater System and the Sanitation System. The schedule of revenues and expenses compared-to-budget can be used to determine the Authority's compliance with the budget. The separate schedules reflecting financial information for the Water and Wastewater System and the Sanitation System can be used to determine if the separate systems have recovered all associated costs for that system. It is the Board's philosophy that each system should be self-supporting.

Financial Analysis

The following Condensed Balance Sheets provide an analysis of the change in financial position from the previous fiscal years:

Condensed Balance Sheets

	September 30,			2011 to 2010		2010 to 2009	
	2011	2010	2009	Dollars	%	Dollars	%
Capital Assets:							
Producing assets	\$ 655,748,523	\$ 403,620,977	\$ 402,915,480	\$ 252,127,546	62.5%	\$ 705,497	0.2%
Construction in progress	28,176,185	290,746,312	208,970,244	(262,570,127)	-90.3%	81,776,068	39.1%
Current assets	52,382,620	39,643,815	70,115,711	12,738,805	32.1%	(30,471,896)	-43.5%
Other assets	148,122,858	135,678,610	164,241,563	12,444,248	9.2%	(28,562,953)	-17.4%
Total assets	<u>\$ 884,430,186</u>	<u>\$ 869,689,714</u>	<u>\$ 846,242,998</u>	<u>\$ 14,740,472</u>	<u>1.7%</u>	<u>\$ 23,446,716</u>	<u>2.8%</u>
Long-term liabilities	\$ 377,582,778	\$ 329,169,866	\$ 316,855,244	\$ 48,412,912	14.7%	12,314,622	3.9%
Current liabilities	37,024,859	47,518,444	57,949,429	(10,493,585)	-22.1%	(10,430,985)	-18.0%
Total liabilities	414,607,637	376,688,310	374,804,673	37,919,327	10.1%	1,883,637	0.5%
Net assets:							
Invested in capital assets, net of related debt	382,131,022	435,474,150	389,252,405	(53,343,128)	-12.2%	46,221,745	11.9%
Restricted	50,042,511	44,601,206	42,240,604	5,441,305	12.2%	2,360,602	5.6%
Unrestricted	37,649,016	12,926,048	39,945,316	24,722,968	191.3%	(27,019,268)	-67.6%
Total net assets	<u>469,822,549</u>	<u>493,001,404</u>	<u>471,438,325</u>	<u>(23,178,855)</u>	<u>-4.7%</u>	<u>21,563,079</u>	<u>4.6%</u>
Total liabilities and net assets	<u>\$ 884,430,186</u>	<u>\$ 869,689,714</u>	<u>\$ 846,242,998</u>	<u>\$ 14,740,472</u>	<u>1.7%</u>	<u>\$ 23,446,716</u>	<u>2.8%</u>

Total net assets as of September 30, 2011 were approximately \$470 million, representing a decrease of 4.7% from the prior year. Total net assets decreased \$23 million as a result of the disposal of the MSWWTP. In 2010, net assets increased by \$21.5 million due to capital contributions, of which \$15.4 million were grant funds received for construction of the CWRP.

Producing assets increased \$252 million in 2011 compared to \$705 thousand in 2010. This increase reflects additions of \$297 million capitalized construction-in-progress and \$689 thousand from developer noncash contributions offset by a decrease of \$20.7 million for depreciation. The Authority disposed of \$31 million in assets, of which the bulk is the MSWWTP. There was a corresponding decrease of \$262.6 million in construction-in-progress in 2011 due to the completion of construction projects and the transfer of those costs from construction-in-progress to utility plant in-service. The \$82 million increase in construction-in-progress from 2009 to 2010 is mainly due to construction of the CWRP.

Current Assets increased \$13 million or 32% from 2010 to 2011 as a result of several factors. Net revenues from operations was up \$7.4 million due to both rate increases and the new CWRP coming on line, both of which contributed to the increase in cash and investments. The remaining increases were increases in accounts receivable, materials and supplies and funds restricted for debt service payments. The 43.5% decrease in current assets from 2009 to 2010 of \$30.5 million is due to the receipt of \$29.4 million in requested FEMA funds that was reflected as a receivable at September 30, 2009 and expended during the year for the CWRP project. Other assets increased in 2011 by \$12.4 million (9.2%) and decreased in 2010 by \$28.5 million (17%) due to the changes in the restricted cash for construction fund.

The Authority continued to experience a decrease in current liabilities of \$10.5 million and \$10.4 million respectively, for fiscal years 2011 and 2010. The decrease is mainly due to the decrease in accounts payable for capital improvements as construction of the CWRP wound down.

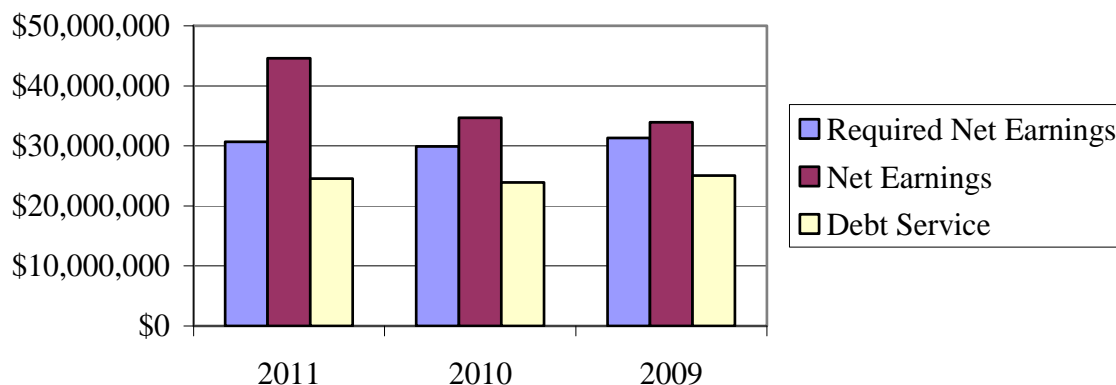
Debt Administration

In 2011, the Authority issued \$42.4 million in utility system revenue notes to fund various projects to expand and upgrade the water and wastewater system. An additional \$18 million was received from the SRF to finance the construction of the CWRP. In 2010, the Authority received a \$20 million loan from the SRF for CWRP construction. Debt incurred under the SRF Loan program, outstanding at the end of fiscal year 2011 amounted to \$58 million and \$41.3 million at the end of fiscal year 2010. Additional information on the Authority's long-term debt can be found in Note 6 in the Notes to the Financial Statements section.

In the bond resolution, the Authority covenants that it will fix, establish, and revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals, and other charges for the use of the product, services and facilities of the System which will always provide gross revenues in each year sufficient to pay 100% of all costs of operation and maintenance of the system, and 125% of the bond service requirement due in each year on all outstanding bonds. The rate covenant in the bond resolution obligates the Authority to review rates annually and to revise such rates and charges as necessary to meet the coverage test and to pay 100% of all costs of operations and maintenance of the System during that fiscal year.

Even with the downward spiraling economy, the Authority has maintained higher debt service coverage than mandated. Debt service coverage for 2011 and 2010 was 182% and 145%, respectively, both of which exceeded the debt service covenants requirement of 125%. The Authority believes the ratio is appropriate for the degree of risk in the organization, and it is clear evidence of the strength of its equity. The following table presents the required net earnings as defined by the bond covenants, actual net earnings available for debt service, and total annual debt service. Additional debt service coverage is shown in the statistical section of this report.

Net Earnings Available for Debt Service



The following Condensed Statements of Revenues, Expenses, and Changes in Net Assets, show the results of operations for the current and the prior two fiscal years:

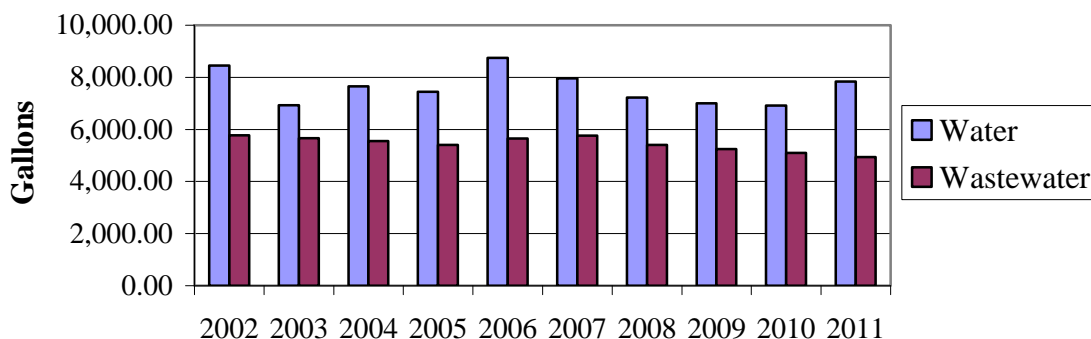
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Three-Year Comparison
Year Ended September 30,

	2011	2010	2009	2011 to 2010		2010 to 2009	
				Dollars	%	Dollars	%
Revenues:							
Customer charges:							
Wastewater	\$41,334,031	\$39,211,690	\$36,416,004	\$2,122,341	5.4%	\$2,795,686	7.7%
Water	34,458,119	30,199,110	29,463,410	4,259,009	14.1%	735,700	2.5%
Sanitation	18,728,379	17,947,986	17,575,034	780,393	4.3%	372,952	2.1%
Total customer charges	94,520,529	87,358,786	83,454,448	7,161,743	8.2%	3,904,338	4.7%
Connection charges	262,858	232,556	246,311	30,302	13.0%	(13,755)	-5.6%
Sewer improvement fee	5,891,646	5,917,989	5,923,779	(26,343)	-0.4%	(5,790)	-0.1%
Other	4,963,165	2,265,915	2,577,520	2,697,250	119.0%	(311,605)	-12.1%
Total operating revenues	105,638,198	95,775,246	92,202,058	9,862,952	10.3%	3,573,188	3.9%
Expenses:							
Operating expenses:							
Water & Wastewater	68,883,304	67,245,872	63,297,144	1,637,432	2.4%	3,948,728	6.2%
Sanitation	18,230,988	17,380,513	17,121,273	850,475	4.9%	259,240	1.5%
Total operating expenses	87,114,292	84,626,385	80,418,417	2,487,907	2.9%	4,207,968	5.2%
Operating income	18,523,906	11,148,861	11,783,641	7,375,045	66.2%	(634,780)	-5.4%
Non-operating revenues (expenses):							
Investment income	815,698	2,297,025	4,054,187	(1,481,327)	-64.5%	(1,757,162)	-43.3%
Settlement income	412,746	812,795	10,047,361	(400,049)	-49.2%	(9,234,566)	-91.9%
Interest expense	(15,036,880)	(12,906,621)	(14,102,379)	(2,130,259)	16.5%	1,195,758	-8.5%
Loss on disposal of assets	(30,986,812)	(865,485)	(817,547)	(30,121,327)	3480.3%	(47,938)	5.9%
Increase in net assets, before contribution	(26,271,342)	486,575	10,965,263	(26,757,917)	-5499.2%	(10,478,688)	-95.6%
Capital contributions:							
Cash	2,403,330	18,700,643	133,868,156	(16,297,313)	-87.1%	(115,167,513)	-86.0%
Non-cash	689,157	2,375,861	577,648	(1,686,704)	-71.0%	1,798,213	311.3%
Total capital contributions	3,092,487	21,076,504	134,445,804	(17,984,017)	-85.3%	(113,369,300)	-84.3%
Change in net assets	(23,178,855)	21,563,079	145,411,067	(44,741,934)	-207.5%	(123,847,988)	-85.2%
Net assets at beginning of year	493,001,404	471,438,325	326,027,258	21,563,079	4.6%	145,411,067	44.6%
Total net assets	\$469,822,549	\$493,001,404	\$471,438,325	(\$23,178,855)	-4.7%	\$21,563,079	4.6%

Rate increases of 7%, 5.93%, and 4%, in 2011, 2010, and 2009, respectively account for the increase in water and wastewater revenue for the last three years. Billed water consumption increased by 1 million gallons from 2010 to 2011 even though the customer base dropped slightly. The number of water and wastewater customers each increased by less than 1% from 2009 to 2010. Sewage plant flows decreased in 2011 by 1.3 million gallons. This decrease is attributed to installation of new transmission lines and the replacement of old sewer mains that greatly reduced the infiltration and inflow problem experienced by the older sewer lines. The Authority saw a growth in wastewater customers of .5% or 365 customers.

The following chart depicts average residential water usage and wastewater flows over the previous 10 years. Average residential water consumption increased over 900 gallons after dropping each year since 2006. Average residential wastewater flows have decreased four years in a row.

Average Residential Usage



The 4.3% increase in sanitation revenue is a result of the 1.7% rate increase implemented October 1, 2010. Residential rates in 2010 remained at 2009 levels due to the implementation of the once-per-week collection system, despite disposal rate (tipping fee) increases by Escambia County at their Perdido Landfill. Fiscal year 2010 was the first full year under the once-per-week sanitation collection system that the Authority implemented in January 2009. The tonnage of residential solid waste collected continued to decrease in 2011. During the year, 70,239 tons of residential solid waste was collected, 3,316 tons less than in 2010. In fiscal year 2010, 73,555 tons of residential solid waste was collected, a reduction of 1,539 tons when compared to 2009. Management believes the two primary reasons for the decreased tonnage are the growth of the curbside recycling program and the persistent downturn in the economy. While the amount of garbage collected by the Authority decreased, the cost of disposal increased due to another tipping fee increase at the Perdido Landfill.

Other income increased \$2.7 million, or 119%, from 2010 to 2011. Several things contributed to the increase including receipt of State and Tribal Assistance Grant (“STAG”) funds of approximately \$1.7 million, an additional \$273 thousand from the sale of recyclable commodities and scrap metals, the recognition of \$319 thousand from the write-off of prepaid water and wastewater connection fees. While preparing to close the MSWWTP, a number of spare parts were identified that would be useful at various lift stations and water plants. An adjustment of \$537 thousand was recorded as other income to increase inventory for the value of these spare parts which had been expensed in previous years.

Total Authority operating expenses for 2011 increased almost \$2.5 million or 2.9% over 2010. Total operating expenses for 2010 were \$84.6 million, a 5.2% increase over 2009. Fiscal year 2011 water and wastewater operating expenses increased 2.4%. Increases in utilities and depreciation expense of \$3 million were offset by decreases in contractual services and repairs and maintenance expenses of \$516 thousand. Fiscal year 2010 water and wastewater operating expenses increased 6.2%, or \$4 million. The increase in depreciation of \$3 million on water and wastewater assets accounted for most of the increase. Other increases include contractual services and utility expenses.

Increases in tipping fees, supplies, and depreciation expense account for the 4.9% increase in sanitation operating expenses. In fiscal year 2010, sanitation operating expenses increased 1.5% or \$259 thousand. Increases in the costs for supplies, repairs and maintenance, tipping fees and depreciation were offset by decreases in personnel costs and professional services.

The \$30 million increase in loss on disposal of assets is due to the removal of the cost and corresponding accumulated depreciation of the MSWWTP. The plant was taken off line April 28, 2011 and demolition of the plant began September 2011.

Cash contributions decreased 87% from 2010 to 2011. In 2010, \$15.4 million in FEMA grants was recorded. No funds were received from FEMA during 2011. Non-cash contributions decreased \$1.6 million in 2011 after rising \$1.8 million in 2010 due to the decrease in construction in Escambia County. The utility system contributions are primarily residential and have been completed in accordance with plans and specifications approved by the Authority. These contributions are not budgeted, as they are generally non-cash, of limited relevance to rate setting, and the timing is not subject to the Authority control.

Capital Assets

During fiscal year 2011, \$42 million was expended on construction projects. Significant capital investments include \$17 million on the CWRF, \$6 million to expand and upgrade the gravity sewer system, \$6 million on the International Paper wetlands disposal project, \$2.7 million on replacement vehicles, \$2.3 million to upgrade lift stations, \$2 million on the Pensacola Beach Wastewater Treatment Plant, and \$1.8 million to upgrade water lines and maintain wells and water tanks.

During fiscal year 2010, the Authority spent \$103 million on construction projects including \$82 million on the CWRF, \$9 million to expand and upgrade the gravity sewer system, \$3 million to upgrade water lines and maintain wells and water tanks, \$2.3 million on replacement vehicles, and \$2 million on the Pensacola Beach Wastewater Treatment Plant.

See Note 4 in the Notes to the Financial Statements section for additional information on the Authority's capital assets.

Economic Factors and Next Year's Budget and Rates

The projected revenue for the fiscal year 2012 water and wastewater budget is based upon the 7% rate increase approved by the Authority Board in 2011. The budget includes a 2.8% increase in water and wastewater operating expenses over 2011. Based on the most recent engineering studies, the infrastructure is aging with the anticipation of continued increases in routine operating and maintenance expenses. The budget anticipates the issuance of debt either through the SRF, bank loans, or bonds. Debt service coverage for the water and wastewater 2012 budget is 134%. Management plans to increase the debt service coverage over the next two years using an incremental approach as recommended in the system analysis study.

The Sanitation operating budget includes a 1.7% rate adjustment, of which 1.5% is attributable to the increase in disposal fees at the Perdido Landfill. The budget expenses reflect an increase of 3.3%. Funding is included to replace the vehicle radios due to a change in regulations from the Federal Communications Commission.

Requests for Information

This financial report is designed to provide the Authority's ratepayers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Emerald Coast Utilities Authority, Director of Finance, PO Box 15311, Pensacola, FL 32514-0311, or e-mail debra.buckley@ecua.fl.gov.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Unrestricted assets -		
Cash and investments (<i>note 2</i>)	\$ 15,714,815	\$ 6,489,885
Accounts receivable less allowance for doubtful accounts of \$1,035,300 and \$960,500 in 2011 and 2010, respectively	14,523,127	13,772,554
Grants receivable	373,483	640,216
Materials and supplies (<i>note 1</i>)	4,170,824	3,351,802
Prepaid expenses	280,015	92,683
Restricted assets -		
Restricted by debt agreements - Sinking fund	13,299,562	11,338,903
Customer deposits	4,020,794	3,957,772
	<u>52,382,620</u>	<u>39,643,815</u>
Total current assets		
Noncurrent Assets:		
Restricted assets -		
Restricted by debt agreements -		
Renewal and replacement fund	6,810,537	6,904,613
Operating and maintenance fund	5,776,986	5,241,075
Construction fund	89,813,469	82,452,755
Forward supply agreement	19,412,340	18,902,979
Debt service reserve	3,057,884	-
Impact fees	1,685,202	2,213,636
Capital improvement program	9,664,953	5,630,826
Sewer improvement fees	4,607,234	6,935,442
Self-insurance funds (<i>note 13</i>)	4,997,116	4,997,116
Total noncurrent restricted assets	<u>145,825,721</u>	<u>133,278,442</u>
Capital assets -		
Utility plant in service	821,005,154	580,636,342
Construction work in progress	28,176,185	290,746,312
Intangible assets	14,996,954	14,996,954
	<u>864,178,293</u>	<u>886,379,608</u>
Less accumulated depreciation and amortization	180,253,585	192,012,319
Total capital assets (<i>notes 1 and 4</i>)	<u>683,924,708</u>	<u>694,367,289</u>
Unamortized debt issuance costs (net of accumulated amortization of \$2,671,082 and \$2,474,148 in 2011 and 2010, respectively) (<i>note 1</i>)	2,297,137	2,400,168
	<u>832,047,566</u>	<u>830,045,899</u>
Total Assets	<u><u>\$ 884,430,186</u></u>	<u><u>\$ 869,689,714</u></u>

LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities (Payable From Current Assets):		
Accounts payable	\$ 2,965,479	\$ 3,046,261
Due to other governments	1,183,288	1,172,425
Payroll and compensated absences payable (<i>note 1</i>)	1,754,627	2,931,766
Other current liabilities	25,208	17,982
	<u>5,928,602</u>	<u>7,168,434</u>
Current Liabilities (Payable From Restricted Assets):		
Current portion of long-term debt (<i>notes 1 and 6</i>)	13,854,656	12,031,638
Accrued interest payable	4,162,366	3,629,497
Accounts payable - capital improvements	8,004,650	19,566,502
Customer deposits	4,020,794	3,957,772
Claims liabilities (<i>note 13</i>)	1,053,791	1,164,601
	<u>31,096,257</u>	<u>40,350,010</u>
Total current liabilities (payable from restricted assets)	<u>31,096,257</u>	<u>40,350,010</u>
Total current liabilities	<u>37,024,859</u>	<u>47,518,444</u>
Long-Term Liabilities:		
Long-term debt (<i>notes 1 and 6</i>)	373,590,133	325,684,759
Long-term compensated absences and benefits payable (<i>notes 1 and 12</i>)	3,992,645	3,165,579
Deferred capital contributions (<i>note 1</i>)	-	319,528
	<u>377,582,778</u>	<u>329,169,866</u>
Total long-term liabilities	<u>377,582,778</u>	<u>329,169,866</u>
Total liabilities	<u>414,607,637</u>	<u>376,688,310</u>
Net Assets:		
Invested in capital assets, net of related debt	382,131,022	435,474,150
Restricted for debt service and other bond requirements (<i>note 1</i>)	48,357,309	42,387,570
Restricted for expansion of utility plant (<i>note 1</i>)	1,685,202	2,213,636
Unrestricted	37,649,016	12,926,048
	<u>469,822,549</u>	<u>493,001,404</u>
Total net assets	<u>469,822,549</u>	<u>493,001,404</u>
Commitments and Contingencies (<i>note 14</i>)	--	--
Total Liabilities and Net Assets	<u><u>\$ 884,430,186</u></u>	<u><u>\$ 869,689,714</u></u>

EMERALD COAST UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Customer charges -		
Wastewater	\$ 41,334,031	\$ 39,211,690
Water	34,458,119	30,199,110
Sanitation	18,728,379	17,947,986
Connection charges	262,858	232,556
Sewer improvement fees	5,891,646	5,917,989
Other	4,963,165	2,265,915
	<u>105,638,198</u>	<u>95,775,246</u>
Total operating revenues		
Operating Expenses Before Depreciation and Amortization:		
Personal services	33,711,026	34,573,672
Contractual services	2,676,946	3,061,248
Professional services	677,373	739,686
Supplies	6,712,469	6,023,004
Repairs and maintenance	3,404,606	3,458,930
Heat, light and power	7,564,477	6,652,523
Tipping fees	4,130,202	3,774,238
Other	3,276,376	3,592,195
	<u>62,153,475</u>	<u>61,875,496</u>
Total operating expenses before depreciation and amortization		
Operating Income Before Depreciation and Amortization	43,484,723	33,899,750
Depreciation and Amortization	24,960,817	22,750,889
	<u>18,523,906</u>	<u>11,148,861</u>
Operating income		
Nonoperating Revenues (Expenses):		
Investment income	815,698	2,297,025
Settlement income	412,746	812,795
Interest expense	(15,036,880)	(12,906,621)
Loss on disposal of assets	(30,986,812)	(865,485)
	<u>(44,795,248)</u>	<u>(10,662,286)</u>
Total nonoperating revenues (expenses)		
Income (Loss) Before Capital Contributions	(26,271,342)	486,575
Capital contributions - cash (note 8)	2,403,330	18,700,643
Capital contributions - noncash (note 8)	689,157	2,375,861
	<u>2,403,330</u>	<u>18,700,643</u>
Change in Net Assets	(23,178,855)	21,563,079
Net Assets at Beginning of Year	493,001,404	471,438,325
Net Assets at End of Year	\$ 469,822,549	\$ 493,001,404

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers and others	\$ 108,871,529	\$ 98,400,299
Cash paid to suppliers for goods and services	(43,483,166)	(41,105,547)
Cash paid to employees for services	(23,441,642)	(21,934,664)
Net cash provided by operating activities	<u>41,946,721</u>	<u>35,360,088</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(56,508,019)	(116,143,111)
Proceeds from issuance of long-term debt	60,654,445	22,266,883
Debt issuance costs	(93,903)	-
Principal paid on long-term debt	(12,017,968)	(11,621,532)
Interest paid on long-term debt	(13,215,162)	(11,582,595)
Proceeds from sale of assets	130,276	141,171
Contributions from developers, customers and other governments	2,083,802	52,970,059
Net cash used for capital and related financing activities	<u>(18,966,529)</u>	<u>(63,969,125)</u>
Cash Flows From Investing Activities:		
Investment income	306,337	(1,013,826)
Purchases of investments	(56,476,654)	(107,418,739)
Proceeds from maturities of investments and notes receivable	133,054,985	126,888,870
Net cash provided by investing activities	<u>76,884,668</u>	<u>18,456,305</u>
Net Increase (Decrease) in Cash and Cash Equivalents	99,864,860	(10,152,732)
Cash and Cash Equivalents, Beginning of Year	<u>58,828,747</u>	<u>68,981,479</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 158,693,607</u></u>	<u><u>\$ 58,828,747</u></u>

EMERALD COAST UTILITIES AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(Continued)

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operations:		
Operating income	\$ 18,523,906	\$ 11,148,861
Adjustments to reconcile operating income to		
net cash provided by operating activities -		
Depreciation and amortization	24,960,817	22,750,889
Settlement income	412,746	812,795
Changes in -		
Accounts receivable, net	(483,840)	(1,516,607)
Materials and supplies	(819,022)	(298,960)
Prepaid expenses	(187,332)	32,752
Accounts payable	(80,782)	193,057
Due to other governments	10,863	816,362
Payroll and compensated absences payable	(1,177,139)	202,078
Other current liabilities	7,226	77
Long-term compensated absences payable	827,066	933,464
Customer deposits	63,022	20,847
Claims liabilities	(110,810)	264,473
Net cash provided by operating activities	<u>\$ 41,946,721</u>	<u>\$ 35,360,088</u>
Reconciliation of Cash and Cash Equivalents per		
Statements of Cash Flows to the Balance Sheets:		
Cash and investments	\$ 15,714,815	\$ 6,489,885
Restricted assets	163,146,077	148,575,117
	<u>178,860,892</u>	<u>155,065,002</u>
Less notes receivable and investments	(20,167,285)	(96,236,255)
Cash and cash equivalents	<u>\$ 158,693,607</u>	<u>\$ 58,828,747</u>
Supplemental Schedule of Noncash Investing, Capital		
and Financing Activities:		
Property contributed by developers and others (note 8)	\$ 689,157	\$ 2,375,861
Unrealized appreciation in fair value of investments	<u>\$ 509,361</u>	<u>\$ 3,310,851</u>

This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Defining the Reporting Entity:

The Emerald Coast Utilities Authority (formerly, the Escambia County Utilities Authority) (the “Authority”) was formed pursuant to the provisions of Chapter 81-376 Laws of Florida, Special Acts of 1981 as amended. The Authority is governed by a Board of five members elected from districts located in Escambia County, Florida. The purpose of the Authority as mandated by the Legislature is to acquire, consolidate, manage and operate the water and wastewater systems in Escambia County.

In addition to its water and wastewater utility, the Authority also operates a sanitation collection utility for both residential and commercial services. The Authority has established a policy that the sanitation system be self-supporting.

The Emerald Coast Utilities Authority is an independent special district as defined by Section 218.31, Florida Statutes and is not included for financial reporting purposes as a component unit of Escambia County or the City of Pensacola, Florida. There are no organizations that should be considered for inclusion as component units in the Authority’s financial statements.

Fund Accounting:

The Authority is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. As allowed by the Governmental Accounting Standards Board (“GASB”), the Authority has elected not to adopt Statements and Interpretations of the Financial Accounting Standards Board issued after November 30, 1989.

Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The Authority is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and related expenses are recognized when they are incurred.

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation:

The Authority has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 establishes standards for external financial reporting for all state and local governmental entities which includes a Management's Discussion and Analysis section, a balance sheet, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

General Budget Policies:

The Board approves total budget appropriations only. The Executive Director is authorized to transfer budget amounts between departmental and object codes. However, any revisions that alter the total appropriations must be approved by the Board. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to an object code basis (personal services, contractual services, professional services, etc.). All appropriations lapse at year end.

Formal budgetary integration is employed as a management device during the year.

Budgetary Basis of Accounting:

The budget is prepared on a basis that differs significantly from generally accepted accounting principles. The primary differences are as follows:

- 1) The budget does not include a provision for depreciation expense or amortization of debt issuance costs.
- 2) The budget includes provisions for capital outlay and debt retirement which are not included in the results of operations under generally accepted accounting principles.

The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Materials and Supplies:

Materials and supplies are recorded at the lower of average cost or market.

Restricted Assets:

Assets required to be segregated pursuant to the revenue bond resolutions, by state law, or by Board designation are identified as restricted assets.

Investments:

Investments are stated at fair value.

Capital Assets:

The Authority capitalizes property with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Property acquired through purchase or internal construction is stated at cost. Property contributed by customers and developers is recorded at its fair value at the date received as estimated by engineers. The utility plant is depreciated using the composite straight-line method over the estimated useful lives of the assets. Estimated useful lives are generally as follows:

Buildings	20 to 50 years
Improvements	20 to 50 years
Equipment	5 to 10 years

Capitalization of Interest:

The Authority capitalizes interest on all major construction projects. All other interest is charged to operations as incurred.

Intangible Assets:

Intangible assets are amounts paid for solid waste collection rights within unincorporated areas of Escambia County. The amounts are being amortized over 30 years using the straight-line method.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Issuance Costs:

Debt issuance costs are amortized over the estimated life of the issue using the straight-line method.

Long-Term Debt/Capital Appreciation Bonds:

Capital appreciation bonds are recorded at their issuance price plus accretion. The difference between the issuance price and the maturity value of the capital appreciation bonds is recognized as accretion over the life of the bonds using the interest method.

Accumulated Compensated Absences:

It is the Authority's policy to permit employees to accumulate a limited amount of earned but unused annual leave. Accordingly, the Authority records an accrual for earned but unused annual leave.

Net Assets:

Equity is classified as net assets and is further classified in the following components:

Invested in capital assets, net of related debt - Consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

Restricted for debt service and other bond requirements - Consists of net assets with constraints placed on their use by revenue bond resolution.

Restricted for expansion of utility plant - Consists of impact fees received and to be used only for expansion of the utility plant.

Unrestricted - Consists of all other net assets not included in the above categories.

Restricted and Unrestricted Resources:

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses:

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are customer charges for water, wastewater and sanitation services. Operating expenses include the cost of providing utility services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue and Deferred Revenue:

The Authority bills customers for water, wastewater and sanitation services monthly on a cycle basis. Unbilled revenue between the end of the cycle and the end of the month is accrued. Connection charges are based on actual costs and, accordingly, are recorded as revenue. Connection charges collected in advance are recorded as deferred revenue.

Capital Contributions and Deferred Capital Contributions:

Capital contributions are recognized in the statements of revenues, expenses and changes in net assets when earned, and include impact fees, construction grants and property received from customers and developers. Construction grants and impact fees received in advance are recorded as deferred capital contributions.

Reclassifications:

Certain reclassifications were made to the 2010 financial statements to conform to the current year presentation.

NOTE 2 - CASH AND INVESTMENTS

The investment of surplus funds and restricted reserve funds is governed by the Authority's investment policy under the provisions of Section 218.415, Florida Statutes. Investments authorized by the Authority's investment policy and state statute include intergovernmental investment pools, money market funds, including money market mutual funds, interest bearing time deposits or savings accounts in qualified public depositories, direct obligations of the U.S. Treasury and U.S. agencies and instrumentalities, and other investments authorized by law or by resolution for a special district.

Chapter 280, Florida Statutes, provides that deposits must be placed in a depository designated under the provisions of Chapter 136 and the regulations of the Department of Banking and Finance as a qualified public depository. As such, these deposits are considered to be fully insured.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Deposits:

The Authority's deposits at September 30, 2011 and 2010 were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer under the provisions of Chapter 280, Florida Statutes. At September 30, 2011 and 2010, the carrying amount of the deposits was \$75,371,646 and \$42,156,893, respectively, and the bank balance was \$76,048,256 and \$42,252,099, respectively.

Investments:

As of September 30, 2011, the Authority had the following investments:

	<u>Maturities</u>	<u>2011</u>	<u>2010</u>
U.S. Treasury Securities	November 2014	\$ 19,412,340	\$ 18,902,979
Local Government Surplus Funds Trust Fund	Average of 38 days	35,363,753	12,133,589
Fund B Surplus Funds Trust Fund	Average of 4.82 years	753,960	949,329
Treasury Trust Fund	Average of 53 days	40,795,994	4,416,487
Money Market Mutual Funds	Average of 18 days	7,000,436	-
U.S. Government Agency Securities	N/A	-	57,327,773
Mortgage-Backed Securities	N/A	-	19,055,995
		<u>\$ 103,326,483</u>	<u>\$ 112,786,152</u>

Credit Risk:

In November 2007, the State Board of Administration ("SBA") implemented a temporary freeze on assets held in the Local Government Surplus Funds Trust Fund Investment Pool ("Pool") due to an unprecedented amount of withdrawals from the Pool coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub-prime mortgage risk. In December 2007, based on recommendations from an outside financial advisor, the SBA restructured the Pool into two separate pools. The Local Government Surplus Funds Trust Fund ("Florida PRIME", formerly known as "LGIP") consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Fund B Surplus Funds Trust Fund ("Fund B") consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of restructuring, pool participants had their balances proportionately allocated into the Florida PRIME and Fund B.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Credit Risk (Continued):

The Authority's investment policy limits its investments in money market mutual funds to the highest credit quality rating from a nationally recognized rating agency. Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to the Florida PRIME as of September 30, 2011. The Florida PRIME is an external 2a7-like investment pool, in which the fair value of the Authority's position in the pool is the same as the value of the pool shares. Fund B is a fluctuating net asset value ("NAV") pool, and the fair value factor applied to the cost of investments in Fund B was .7568386 as of September 30, 2011. Fund B was not rated by a nationally recognized statistical rating agency as of September 30, 2011.

Participants cannot make additional deposits into, or any withdrawals from, Fund B. Participants in Fund B will receive periodic distributions to the extent that Fund B receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sale of securities, collateral liquidation, or other restructure and workout activities undertaken.

Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Interest Rate Risk:

The Authority does not have a provision within its investment policy that sets forth specific limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - RESTRICTED ASSETS

Restricted assets consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash and investments	\$ 163,145,092	\$ 148,574,938
Impact fees notes receivable	<u>985</u>	<u>179</u>
	<u>\$ 163,146,077</u>	<u>\$ 148,575,117</u>

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 4 - CAPITAL ASSETS

Capital assets activity during the year was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<u>Cost</u>					
Depreciable:					
Buildings and building improvements	\$ 8,259,784	\$ 89,997	\$ (250,344)	\$ 4,407,430	\$ 12,506,867
Improvements other than buildings	486,662,596	6,282,807	(64,457,932)	292,181,551	720,669,022
Improvements under capital lease	15,537,673				15,537,673
Equipment	44,137,455	4,254,871	(3,128,363)		45,263,963
Equipment under capital lease	1,683,752				1,683,752
Intangible assets	14,996,954				14,996,954
Nondepreciable:					
Land	24,355,082	988,795			25,343,877
Construction in progress	290,746,312	34,018,854		(296,588,981)	28,176,185
	<u>886,379,608</u>	<u>45,635,324</u>	<u>(67,836,639)</u>	<u>-</u>	<u>864,178,293</u>
<u>Less Accumulated Depreciation and Amortization</u>					
Buildings and building improvements	2,912,486	218,505	(202,720)		2,928,271
Improvements other than buildings	149,723,761	19,064,182	(33,413,000)		135,374,943
Improvements under capital lease	1,500,044	1,500,044			3,000,088
Equipment	28,331,366	3,464,765	(3,103,831)		28,692,300
Equipment under capital lease	585,546	210,168			795,714
Intangible assets	8,959,116	503,153			9,462,269
	<u>192,012,319</u>	<u>24,960,817</u>	<u>(36,719,551)</u>	<u>-</u>	<u>180,253,585</u>
	<u>\$ 694,367,289</u>	<u>\$ 20,674,507</u>	<u>\$ (31,117,088)</u>	<u>\$ -</u>	<u>\$ 683,924,708</u>

Of the above amount classified as improvements other than buildings, approximately \$7,900,000 is the cost of the Warrington and Perdido Bay Wastewater Treatment Plants, which have been closed and are operating as lift stations. Certain components of these plants have been transferred to other sections of capital assets.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 5 - CAPITALIZED INTEREST

Total interest costs incurred for the years ended September 30, 2011 and 2010 amounted to \$17,177,931 and \$16,632,685, respectively. Of these amounts, \$2,141,051 and \$3,726,063 were capitalized in the respective years as part of the cost of the utility plant.

NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>2011</u>	<u>2010</u>
\$41,241,998 Utility System Revenue Bonds, Series 1992B, including \$29,220,000 of current interest bonds and \$12,021,998 of capital appreciation bonds, interest from 3.4% to 6.25%, maturing in annual installments through January 2015, secured by net revenue	\$ 41,241,998	\$ 42,869,776
\$30,790,000 Utility System Revenue Bonds, Series 1998A-C, interest from 3.6% to 5.1%, maturing in annual installments through January 2023, secured by net revenue, \$9,160,000 defeased in December 2006	9,955,000	11,025,000
\$18,200,000 Sanitation System Improvement and Refunding Revenue Bonds, Series 1998, interest from 3.6% to 4.6%, maturing in annual installments through January 2022, secured by net revenue	9,235,000	9,870,000
\$40,010,000 Utility System Refunding Revenue Bonds, Series 1998D, interest from 4% to 5%, matured in January 2011, secured by net revenue	-	2,200,000
\$10,340,000 Utility System Revenue Bonds, Series 2001, interest from 3.75% to 5.28%, maturing in annual installments through January 2031, secured by net revenue	7,100,000	7,460,000

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 6 - LONG-TERM DEBT (Continued)

	<u>2011</u>	<u>2010</u>
\$61,897,499 State of Florida Department of Environmental Protection Revolving Loans, interest from 2.16% to 3.27%, maturing through October 2032, secured by net revenue	57,960,646	41,285,145
\$5,845,000 Utility System Refunding Revenue Bonds, Series 2001B, interest from 3% to 5%, maturing in annual installments through January 2022, secured by net revenue	3,825,000	4,085,000
\$23,150,000 Utility System Revenue Bonds, Series 2003, interest from 2% to 5.25%, maturing in annual installments through January 2033, secured by net revenue	19,685,000	20,210,000
\$15,800,000 Utility System Refunding Revenue Bonds, Series 2004, interest from 2% to 4.5%, maturing in annual installments through July 2027, secured by net revenue	12,990,000	13,555,000
\$17,335,000 Utility System Revenue Bonds, Series 2006, interest from 4% to 5.25%, maturing in annual installments through January 2036, secured by net revenue	16,655,000	17,000,000
\$28,660,000 Utility System Refunding Revenue Bonds, Series 2006B, interest from 4% to 5%, maturing in annual installments through January 2029, secured by net revenue	25,675,000	26,995,000
\$130,000,000 Utility System Revenue Note, Series 2008, interest at 4.91%, maturing in annual installments through July 2028, secured by net revenue	129,685,000	129,885,000
\$42,399,000 Utility System Revenue Note, Series 2010, interest at 6%, maturing in annual installments through January 2031, secured by net revenue	42,399,000	-
\$15,500,000 capital lease, interest at 4.41%, payments due annually through September 2027	13,148,796	13,706,820
Less: Unamortized bond premiums (discounts), net	1,424,864	1,484,181
Deferred loss on refunding	(3,535,515)	(3,914,525)
	387,444,789	337,716,397
Less current maturities	13,854,656	12,031,638
	\$ 373,590,133	\$ 325,684,759

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 6 - LONG-TERM DEBT (Continued)

Capital leases noted in the above schedule are categorized as improvements under capital lease and equipment under capital lease.

Long-term liabilities activity during the year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes	\$ 324,009,577	\$ 60,654,445	\$ (10,368,029)	\$ 374,295,993	\$ 13,271,988
Capital leases	13,706,820		(558,024)	13,148,796	582,668
Compensated absences and benefits payable	4,185,892	1,635,649	(892,332)	4,929,209	936,564
Deferred capital contributions	319,528		(319,528)	-	-
	<u>\$ 342,221,817</u>	<u>\$ 62,290,094</u>	<u>\$ (12,137,913)</u>	<u>\$ 392,373,998</u>	<u>\$ 14,791,220</u>

The annual requirements to amortize long-term debt outstanding at September 30, 2011 are as follows:

Year Ending September 30	Principal	Interest	Total
2012	\$ 13,854,656	\$ 16,999,937	\$ 30,854,593
2013	15,775,741	16,593,081	32,368,822
2014	16,519,479	15,812,711	32,332,190
2015	25,706,157	14,463,475	40,169,632
2016	17,281,989	14,014,907	31,296,896
2017-2021	103,200,403	57,522,775	160,723,178
2022-2026	109,494,606	33,703,741	143,198,347
2027-2031	70,410,890	9,043,756	79,454,646
2032-2036	8,712,812	1,019,757	9,732,569
	<u>\$ 380,956,733</u>	<u>\$ 179,174,140</u>	<u>\$ 560,130,873</u>

There are a number of covenants in the debt agreements. One such covenant requires that the Authority's net revenue each year be equal to at least 125% of annual debt service requirements. Debt service coverage for 2011 and 2010 was 182% and 145%, respectively.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 7 - ADVANCE REFUNDINGS OF DEBT

The Authority has issued refunding revenue bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service coverage savings. The Authority has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the Authority's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues.

At September 30, 2011, the Authority has \$59,495,000 of bonds outstanding that are considered to be defeased.

NOTE 8 - CAPITAL CONTRIBUTIONS

Capital contributions for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Capital contributions - cash -		
Impact fees	\$ 1,685,201	\$ 2,213,636
Main Street Wastewater Treatment Plant relocation	-	15,440,244
Other	<u>718,129</u>	<u>1,046,763</u>
	<u>\$ 2,403,330</u>	<u>\$ 18,700,643</u>
Capital contributions - noncash -		
Property contributed by developers and others	<u>\$ 689,157</u>	<u>\$ 2,375,861</u>

Capital contributions include grant funds awarded to the Authority to finance replacement of the Main Street Wastewater Treatment Plant.

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 9 - SEGMENT INFORMATION

The Authority has issued revenue bonds to finance capital acquisitions for its water and wastewater department and for its sanitation department. Both departments are accounted for in a single enterprise fund (i.e., the Authority). However, investors in the revenue bonds rely solely on the revenue generated by the individual departments for repayment. Summary financial information by department is presented below:

	2011		2010	
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>
Condensed Statement of Net Assets				
Assets:				
Current assets	\$ 49,371,157	\$ 3,011,463	\$ 36,891,213	\$ 2,752,602
Noncurrent assets	<u>808,686,745</u>	<u>23,360,821</u>	<u>806,104,656</u>	<u>23,941,243</u>
Total assets	<u>\$ 858,057,902</u>	<u>\$ 26,372,284</u>	<u>\$ 842,995,869</u>	<u>\$ 26,693,845</u>
Liabilities:				
Current liabilities	34,681,797	2,343,062	44,884,746	2,633,698
Long-term liabilities	<u>369,132,361</u>	<u>8,450,417</u>	<u>320,334,102</u>	<u>8,835,764</u>
Total liabilities	<u>403,814,158</u>	<u>10,793,479</u>	<u>365,218,848</u>	<u>11,469,462</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 370,115,890	\$ 12,015,132	\$ 423,842,711	\$ 11,631,439
Restricted	<u>47,992,206</u>	<u>2,050,305</u>	<u>42,651,624</u>	<u>1,949,582</u>
Unrestricted	<u>36,135,648</u>	<u>1,513,368</u>	<u>11,282,686</u>	<u>1,643,362</u>
Total net assets	<u>454,243,744</u>	<u>15,578,805</u>	<u>477,777,021</u>	<u>15,224,383</u>
Total liabilities and net assets	<u>\$ 858,057,902</u>	<u>\$ 26,372,284</u>	<u>\$ 842,995,869</u>	<u>\$ 26,693,845</u>

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 9 - SEGMENT INFORMATION (Continued)

	2011		2010	
	<u>Water and Wastewater</u>	<u>Sanitation</u>	<u>Water and Wastewater</u>	<u>Sanitation</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating revenue:				
Customer charges	\$ 75,792,150	\$ 18,728,379	\$ 69,410,800	\$ 17,947,986
Other operating revenue (1)	13,820,664	601,430	11,474,296	271,029
Total operating revenue	<u>89,612,814</u>	<u>19,329,809</u>	<u>80,885,096</u>	<u>18,219,015</u>
Operating expenses:				
Depreciation and amortization	21,965,284	2,995,533	19,921,328	2,829,561
Other operating expenses (1)	46,918,020	18,539,880	47,324,544	17,879,817
Total operating expenses	<u>68,883,304</u>	<u>21,535,413</u>	<u>67,245,872</u>	<u>20,709,378</u>
Operating income (loss)	<u>20,729,510</u>	<u>(2,205,604)</u>	<u>13,639,224</u>	<u>(2,490,363)</u>
Nonoperating revenue (expenses):				
Investment income	807,371	8,327	2,288,736	8,289
Interest expense	(14,512,004)	(524,876)	(12,326,613)	(580,008)
Other nonoperating revenue (expenses)	(30,619,300)	45,234	(169,820)	117,130
Total nonoperating revenue (expenses)	<u>(44,323,933)</u>	<u>(471,315)</u>	<u>(10,207,697)</u>	<u>(454,589)</u>
Income before capital contributions and transfers	(23,594,423)	(2,676,919)	3,431,527	(2,944,952)
Capital contributions	3,092,487	-	21,076,504	-
Transfers	(3,031,341)	3,031,341	(3,088,270)	3,088,270
Change in net assets	<u>(23,533,277)</u>	<u>354,422</u>	<u>21,419,761</u>	<u>143,318</u>
Net assets at beginning of year	<u>477,777,021</u>	<u>15,224,383</u>	<u>456,357,260</u>	<u>15,081,065</u>
Net assets at end of year	<u>\$ 454,243,744</u>	<u>\$ 15,578,805</u>	<u>\$ 477,777,021</u>	<u>\$ 15,224,383</u>

(1) – Includes overhead charges between departments that are eliminated in the basic financial statements.

Condensed Statement of Cash Flows

Net cash provided by (used for)				
Operating activities	\$ 38,527,613	\$ 3,419,108	\$ 31,571,465	\$ 3,788,623
Capital and related financing activities	(15,155,888)	(3,810,641)	(60,747,675)	(3,221,450)
Investing activities	76,876,341	8,327	18,448,016	8,289
Net increase (decrease)	<u>100,248,066</u>	<u>(383,206)</u>	<u>(10,728,194)</u>	<u>575,462</u>
Cash and cash equivalents, beginning of year	55,044,621	3,784,126	65,772,815	3,208,664
Cash and cash equivalents, end of year	<u>\$ 155,292,687</u>	<u>\$ 3,400,920</u>	<u>\$ 55,044,621</u>	<u>\$ 3,784,126</u>

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 10 - PENSION PLANS

Florida Retirement System:

Authority employees hired before January 1, 1996 and all employees hired after September 30, 2007 are covered by the Florida Retirement System ("System"), a non-contributory, multiple-employer, cost-sharing public employee retirement system. Employees who retire with 30 years of credited service or at age 62 with 6 years of credited service are entitled to a benefit, payable monthly for life, equal to 1.6 percent of their average final compensation for each year of credited service. Average final compensation is the employee's average salary for the five highest years of salary earned during covered employment. Benefits fully vest on reaching 6 years of credited service. Vested employees may retire before age 62 or 30 years of credited service and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by Chapter 121, Florida Statutes.

A Deferred Retired Option Program ("DROP") has been established under Chapter 121, Florida Statutes. It permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payment while continuing employment with the Authority. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

The Authority is required by State statute to make contributions to the System equal to a certain percent of covered employees' salaries. The employer contribution rates at September 30, 2011 were 4.91% for regular participants, 6.27% for senior management, 11.14% for elected officials, and 4.42% for DROP participants. The employee contribution rate was 3% for all categories, excluding DROP. Contributions for the years ended September 30, 2011, 2010, and 2009 were \$2,350,497, \$2,383,945, and \$2,271,836, respectively, equal to the required contribution for each year.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Division of Retirement, 2639 N. Monroe Street, Building C, Tallahassee, Florida 32399 or calling 1-850-488-6491.

Retirement Plan and Trust for the General Employees:

The Authority also sponsors a defined contribution retirement plan covering Authority employees hired after December 31, 1995 and before October 1, 2007 who elected to continue participation in the plan. The Authority established the defined contribution retirement plan to cover substantially all Authority employees hired subsequent to December 31, 1995. Effective October 1, 2007, employees who are eligible to participate in the Authority's defined contribution retirement plan could elect to transfer their participation from the Authority's plan to the Florida Retirement System. Under the Authority's Plan, which is administered by the Florida League of Cities, Inc., the Authority contributes 8% of the employees' gross salaries. The Plan does not allow for employee contributions. An employee becomes fully vested after six years of employment. The Authority contributed a total of \$51,756 and \$56,062 for the years ended September 30, 2011 and 2010, respectively, equal to the required contribution for each year.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 11 - DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As required by Internal Revenue Code Section 457, all assets are held in trust for the exclusive benefit of the participants.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reported by Employers for Postemployment Benefits Other Than Pensions*. This statement sets forth rules for how governmental employers should account for Other Postemployment Benefits ("OPEB").

Prior to the implementation of Statement No. 45, the costs of the Authority OPEB have been reflected in the financial statements on a pay-as-you-go basis of accounting where the subsidy provided by the Authority, as described below, has been recorded as an expense only after employees retire, and then only one year at a time as the subsidy is paid. Statement No. 45 views the subsidy for retiree medical benefits as a form of compensation which must be accrued on the books of the Authority during an employee's working life, rather than waiting until the employee's service has been completed and he or she has retired.

Plan Description:

The Authority's retirees and their dependents are permitted to remain covered under the Authority's respective medical plans as long as they pay a full premium applicable to coverage elected. This conforms to the minimum required of Florida governmental employers per Chapter 112.0801, Florida Statutes.

Retirees are required to pay the full amount of the insurance company's stated premium in order to remain covered under the medical plan; however, the premiums charged are based on a blending of the experience among younger active employees and older retired employees. Since older retirees generally have higher costs, this means that the Authority is actually subsidizing the cost of the retiree and dependent coverage because it pays all or a significant portion of that premium on behalf of the active employees. This practice is categorized as an "implicit rate subsidy". The Authority has assumed an obligation to pay for the implicit subsidy for the covered lifetimes of the current retirees and their dependents, as well for the covered lifetimes of the current employees after they retire in the future.

Since this OPEB is directly tied to insurance coverage for active employees, a separate benefit plan has not been established to account for the benefits and obligations related to the implicit rate subsidy. Accordingly, a separate audited report is not prepared.

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy:

There is no separate trust through which benefits for retirees are funded. No assets are currently accumulated or earmarked for this purposes. All approved benefits are paid through insurance premiums from the Authority's general assets when due.

In order to begin and maintain retiree medical/prescription coverage, premium payments are required from the retiree. For dependent coverage, the retiree is required to pay a premium as well. If any required amounts are not paid timely, the coverage for the retiree and/or the dependent(s) will cease. The amount of the premium required for retiree and dependent coverage may change each plan year.

Annual OPEB Cost and Net OPEB Obligation:

The Authority's annual OPEB cost is calculated based on the actuarially determined annual required contribution ("ARC") of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The net OPEB obligation is included within long-term compensated absences and benefits payable on the balance sheets. The following table shows the components of the Authority's annual OPEB cost, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal cost (service cost for one year)	\$ 635,213	\$ 671,381	\$ 671,381
Amortization of unfunded actuarial accrued liability	385,612	428,678	412,191
Interest on normal cost and amortization	-	34,155	9,623
Annual required contribution (ARC)	<u>\$ 1,020,825</u>	<u>\$ 1,134,214</u>	<u>\$ 1,093,195</u>
Net OPEB obligation at beginning of year	<u>\$ 1,827,081</u>	<u>\$ 911,702</u>	<u>\$ -</u>
Annual required contribution (ARC)	1,020,825	1,134,214	1,093,195
Interest on net OPEB obligation	65,775	32,821	-
Adjustment to ARC	(61,915)	(28,723)	-
Annual OPEB cost (expense)	<u>1,024,685</u>	<u>1,138,312</u>	<u>1,093,195</u>
Employer contributions made	(169,900)	(222,933)	(181,493)
Increase in net OPEB obligation	<u>854,785</u>	<u>915,379</u>	<u>911,702</u>
Net OPEB obligation at end of year	<u>\$ 2,681,866</u>	<u>\$ 1,827,081</u>	<u>\$ 911,702</u>

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (continued):

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2011, 2010 and 2009 was as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB Cost	\$ 1,024,685	\$ 1,138,312	\$ 1,093,195
Amount Contributed	\$ 169,900	\$ 222,933	\$ 181,493
Percentage of OPEB Cost Contributed	16.6%	19.6%	16.6%
Net OPEB Obligation	\$ 2,681,866	\$ 1,827,081	\$ 911,702

Funded Status:

As of October 1, 2010, the most recent actuarial valuation dates, the OPEB funding progress was as follows:

Actuarial Accrued Liability (AAL) - Entry Age	\$ 11,179,754
Actuarial Value of Assets	<u>-</u>
Unfunded AAL (UAAL)	<u><u>\$ 11,179,754</u></u>
Funded Ratio	0%
Covered Payroll	\$ 21,783,583
UAAL as a Percentage of Covered Payroll	51.32%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following actuarial information was used:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contribution rate	0.8%	1.0%	0.8%
Annual OPEB cost	\$ 1,024,685	\$ 1,138,312	\$ 1,093,195
Contributions made	\$ 169,900	\$ 222,933	\$ 181,493
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percent, closed	Level percent, closed	Level percent, closed
Remaining amortization period	28 years	29 years	30 years
Asset valuation method	Unfunded	Unfunded	Unfunded
Actuarial assumptions:			
Investment rate of return *	3.6%	3.6%	3.6%
Projected salary increases *	4.5% - 9.75%	4.5% - 9.75%	4.5% - 9.75%
Payroll growth assumptions	4%	4%	4%
Initial trend rate	12%	9%	9%
Ultimate trend rate	5%	5%	5%
* Includes general price inflation at	3%	3%	3%

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 13 - RISK MANAGEMENT

The Authority has established a self-insurance program to cover its risk of loss related to general liabilities and workers' compensation claims. The Authority purchases excess insurance coverage for workers' compensation claims with a \$100,000 deductible in order to protect itself against catastrophic losses. Settled claims have not exceeded this excess coverage in any of the last three fiscal years. Excess insurance coverage is not purchased for general liabilities claims because the sovereign immunity limits of the State of Florida essentially restricts general liabilities claims to \$100,000 per person and \$200,000 per occurrence. General liabilities claims above \$100,000 would have to be approved by the State Legislature.

Claims expenses and liabilities are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The Authority does not discount its claims liabilities. Management believes that there are no significant liabilities for claims incurred but not reported at September 30, 2011.

Changes in claims liabilities for the years ended September 30, 2011 and 2010 are shown below:

	<u>2011</u>	<u>2010</u>
Claims liabilities, beginning of year	\$ 1,164,601	\$ 900,128
Claims incurred and changes in estimates	743,234	867,135
Claims paid	<u>(854,044)</u>	<u>(602,662)</u>
Claims liabilities, end of year	<u>\$ 1,053,791</u>	<u>\$ 1,164,601</u>

At September 30, 2011, the Authority has restricted cash of \$4,997,116 for purposes of funding its claims liabilities.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Legal Contingencies:

The Authority is involved in various lawsuits and claims incidental to the normal course of its operations. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Authority.

**EMERALD COAST UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010**

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

Construction Commitments:

The Authority has contractual commitments of approximately \$27 million for construction projects at September 30, 2011.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
SEPTEMBER 30, 2011**

The table below shows a biennial analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of July 1, 2008 and October 1, 2010:

	October 1, 2010	July 1, 2008
Actuarial Accrued Liability (AAL) - Entry Age	\$ 11,179,754	\$ 12,854,310
Actuarial Value of Assets	<u>-</u>	<u>-</u>
Unfunded AAL (UAAL)	<u>\$ 11,179,754</u>	<u>\$ 12,854,310</u>
Funded Ratio	0%	0%
Covered Payroll	\$ 21,783,583	\$ 21,892,157
UAAL as a Percentage of Covered Payroll	51.32%	58.72%

This page intentionally left blank.

SUPPLEMENTARY INFORMATION

The Water and Wastewater System and the Sanitation System do not meet the definition of a “fund” as defined by NCGA Statement 1: Governmental Accounting and Financial Reporting Principles and, therefore, are not funds for financial reporting purposes. Accordingly, combining statements are not presented. The schedules for the above referenced Systems presented on pages 54 through 69 are not required by generally accepted accounting principles.

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011**

Federal Agency, Pass-through Entity, Federal Program	Federal CFDA Number	Contract Grant Number	Expenditures
FEDERAL AWARDS			
Environmental Protection Agency -			
Congressionally Mandated Projects	66.202	XP-97441902	\$ 1,671,617
Clean Water State Revolving Fund Loan	66.458	N/A	<u>18,255,445</u>
Total Environmental Protection Agency			<u>19,927,062</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 19,927,062</u></u>

NOTE: The above schedule is prepared on the accrual basis of accounting.

EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEAR ENDED SEPTEMBER 30, 2011

	Actual (GAAP Basis)	Adjustment to Budgetary Basis	Actual (Budgetary Basis)
Operating Revenues:			
Customer charges -			
Wastewater	\$ 41,334,031	\$	\$ 41,334,031
Water	34,458,119		34,458,119
Sanitation	18,728,379		18,728,379
Connection charges	262,858		262,858
Sewer improvement fees	5,891,646		5,891,646
Other	4,963,165		4,963,165
Total operating revenues	<u>105,638,198</u>	<u>-</u>	<u>105,638,198</u>
Operating Expenses Before Depreciation and Amortization:			
Personal services	33,711,026	(80,094)	33,630,932
Contractual services	2,676,946		2,676,946
Professional services	677,373		677,373
Supplies	6,712,469		6,712,469
Repairs and maintenance	3,404,606		3,404,606
Heat, light and power	7,564,477		7,564,477
Tipping fees	4,130,202		4,130,202
Other	3,276,376		3,276,376
Total operating expenses before depreciation and amortization	<u>62,153,475</u>	<u>(80,094)</u>	<u>62,073,381</u>
Income Before Depreciation and Amortization	43,484,723	80,094	43,564,817
Depreciation and Amortization	<u>24,960,817</u>	<u>(24,960,817)</u>	<u>-</u>
Operating income	<u>18,523,906</u>	<u>25,040,911</u>	<u>43,564,817</u>
Nonoperating Revenues (Expenses):			
Investment income	815,698		815,698
Settlement income	412,746		412,746
Interest expense	(15,036,880)	(2,141,051)	(17,177,931)
Loss on disposal of assets	(30,986,812)	31,032,046	45,234
Total nonoperating revenues (expenses)	<u>(44,795,248)</u>	<u>28,890,995</u>	<u>(15,904,253)</u>
Income (Loss) Before Capital Contributions and Other Financing Sources (Uses)	(26,271,342)	53,931,906	27,660,564
Capital contributions - impact fees and other	2,403,330		2,403,330
Capital contributions - noncash	689,157	(689,157)	-
Principal sinking fund requirements	<u>-</u>	<u>(12,017,968)</u>	<u>(12,017,968)</u>
Change in Net Assets	<u>\$ (23,178,855)</u>	<u>\$ 41,224,781</u>	<u>\$ 18,045,926</u>

<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
\$ 41,334,031	\$ -
34,462,317	(4,198)
18,847,215	(118,836)
281,889	(19,031)
5,891,633	13
2,004,666	2,958,499
<u>102,821,751</u>	<u>2,816,447</u>
36,796,079	3,165,147
3,224,009	547,063
809,898	132,525
8,576,766	1,864,297
4,032,672	628,066
7,646,390	81,913
4,130,202	-
<u>4,107,810</u>	<u>831,434</u>
<u>69,323,826</u>	<u>7,250,445</u>
33,497,925	10,066,892
<u>-</u>	<u>-</u>
<u>33,497,925</u>	<u>10,066,892</u>
1,129,959	(314,261)
412,746	-
(21,002,386)	3,824,455
-	45,234
<u>(19,459,681)</u>	<u>3,555,428</u>
14,038,244	13,622,320
1,721,950	681,380
-	-
<u>(9,206,908)</u>	<u>(2,811,060)</u>
<u>\$ 6,553,286</u>	<u>\$ 11,492,640</u>

**EMERALD COAST UTILITIES AUTHORITY
WATER AND WASTEWATER SYSTEM
COMPARATIVE SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Unrestricted assets -		
Cash and investments	\$ 15,714,765	\$ 6,489,835
Accounts receivable less allowance for doubtful accounts of \$977,700 and \$906,300	13,199,946	12,621,059
Grants receivable	373,483	640,216
Materials and supplies	3,087,676	2,338,288
Prepaid expenses	277,830	92,683
Restricted assets -		
Restricted by debt agreements -		
Sinking fund	12,696,663	10,751,360
Customer deposits	4,020,794	3,957,772
	<u>49,371,157</u>	<u>36,891,213</u>
Total current assets		
Noncurrent Assets:		
Restricted assets -		
Restricted by debt agreements -		
Renewal and replacement fund	6,661,767	6,759,203
Operating and maintenance fund	4,478,350	4,024,446
Construction fund	89,813,469	82,452,755
Forward supply agreement	19,412,340	18,902,979
Debt service reserve	3,057,884	-
Impact fees	1,685,202	2,213,636
Capital improvement program	8,314,388	3,796,332
Sewer improvement fees	4,607,234	6,935,442
Self-insurance funds	4,997,116	4,997,116
Total noncurrent restricted assets	<u>143,027,750</u>	<u>130,081,909</u>
Capital assets -		
Utility plant in service	788,913,953	550,604,038
Construction work in progress	27,959,208	290,745,458
	<u>816,873,161</u>	<u>841,349,496</u>
Less accumulated depreciation	153,360,096	167,561,077
Total capital assets	<u>663,513,065</u>	<u>673,788,419</u>
Unamortized debt issuance costs (net of accumulated amortization of \$2,441,450 and \$2,259,149)	<u>2,145,930</u>	<u>2,234,328</u>
	<u>808,686,745</u>	<u>806,104,656</u>
Total noncurrent assets		
Total Assets	<u><u>\$ 858,057,902</u></u>	<u><u>\$ 842,995,869</u></u>

LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities (Payable From Current Assets):		
Accounts payable	\$ 2,192,637	\$ 2,198,058
Due to other governments	1,173,346	1,162,303
Payroll and compensated absences payable	1,487,143	2,451,488
Other current liabilities	25,208	17,982
	<u>4,878,334</u>	<u>5,829,831</u>
Current Liabilities (Payable From Restricted Assets):		
Current portion of long-term debt	13,189,656	11,396,638
Accrued interest payable	4,058,217	3,518,204
Accounts payable - capital improvements	7,889,388	19,484,834
Customer deposits	4,020,794	3,957,772
Claims liabilities	645,408	697,467
	<u>29,803,463</u>	<u>39,054,915</u>
Total current liabilities (payable from restricted assets)		
	<u>34,681,797</u>	<u>44,884,746</u>
Long-Term Liabilities:		
Long-term debt	365,962,771	317,483,621
Long-term compensated absences and benefits payable	3,169,590	2,530,953
Deferred capital contributions	-	319,528
	<u>369,132,361</u>	<u>320,334,102</u>
Total long-term liabilities		
	<u>403,814,158</u>	<u>365,218,848</u>
Net Assets:		
Invested in capital assets, net of related debt	370,115,890	423,842,711
Restricted for debt service and other bond requirements	46,307,004	40,437,988
Restricted for expansion of utility plant	1,685,202	2,213,636
Unrestricted	36,135,648	11,282,686
	<u>454,243,744</u>	<u>477,777,021</u>
Total net assets		
	<u>\$ 858,057,902</u>	<u>\$ 842,995,869</u>
Total Liabilities and Net Assets		
	<u>\$ 858,057,902</u>	<u>\$ 842,995,869</u>

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
WATER AND WASTEWATER SYSTEM
COMPARATIVE SCHEDULES OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Customer charges -		
Wastewater	\$ 41,334,031	\$ 39,211,690
Water	34,458,119	30,199,110
Connection charges	262,858	232,556
Sewer improvement fees	5,891,646	5,917,989
Charges for overhead	3,304,425	3,328,865
Other	4,361,735	1,994,886
	<u>89,612,814</u>	<u>80,885,096</u>
Operating Expenses Before Depreciation:		
Personal services	26,722,992	27,624,605
Contractual services	2,087,941	2,524,234
Professional services	653,063	704,253
Supplies	4,764,781	4,485,101
Repairs and maintenance	2,149,949	2,229,771
Heat, light and power	7,484,610	6,575,860
Other	3,054,684	3,180,720
	<u>46,918,020</u>	<u>47,324,544</u>
Operating Income Before Depreciation	42,694,794	33,560,552
Depreciation	21,965,284	19,921,328
	<u>20,729,510</u>	<u>13,639,224</u>
Operating income		
Nonoperating Revenues (Expenses):		
Investment income	807,371	2,288,736
Settlement income	412,746	812,795
Interest expense	(14,512,004)	(12,326,613)
Loss on disposal of assets	(31,032,046)	(982,615)
	<u>(44,323,933)</u>	<u>(10,207,697)</u>
Total nonoperating revenues (expenses)		
Income (Loss) Before Capital Contributions and Transfers	(23,594,423)	3,431,527
Capital contributions - impact fees and other	2,403,330	18,700,643
Capital contributions - noncash	689,157	2,375,861
Transfers to Sanitation System	(3,031,341)	(3,088,270)
	<u>(23,533,277)</u>	<u>21,419,761</u>
Change in Net Assets		
Net Assets at Beginning of Year	477,777,021	456,357,260
Net Assets at End of Year	\$ 454,243,744	\$ 477,777,021

**EMERALD COAST UTILITIES AUTHORITY
WATER AND WASTEWATER SYSTEM
COMPARATIVE SCHEDULES OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers and others	\$ 89,713,406	\$ 80,205,041
Cash paid to suppliers for goods and services	(32,500,507)	(31,169,662)
Cash paid to employees for services	(18,685,286)	(17,463,914)
Net cash provided by operating activities	<u>38,527,613</u>	<u>31,571,465</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(53,707,416)	(114,462,330)
Proceeds from issuance of long-term debt	60,654,445	22,266,883
Debt issuance costs	(93,903)	-
Principal paid on long-term debt	(11,382,968)	(10,441,916)
Interest paid on long-term debt	(12,788,999)	(11,101,787)
Proceeds from sale of assets	79,151	21,416
Contributions from developers, customers, and other governments	2,083,802	52,970,059
Net cash used for capital and related financing activities	<u>(15,155,888)</u>	<u>(60,747,675)</u>
Cash Flows From Investing Activities:		
Investment income	298,010	(1,022,115)
Purchases of investments	(56,476,654)	(107,418,739)
Proceeds from maturities of investments and notes receivable	133,054,985	126,888,870
Net cash provided by investing activities	<u>76,876,341</u>	<u>18,448,016</u>
Net Increase (Decrease) in Cash and Cash Equivalents	100,248,066	(10,728,194)
Cash and Cash Equivalents, Beginning of Year	<u>55,044,621</u>	<u>65,772,815</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 155,292,687</u></u>	<u><u>\$ 55,044,621</u></u>

**EMERALD COAST UTILITIES AUTHORITY
WATER AND WASTEWATER SYSTEM
COMPARATIVE SCHEDULES OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(Continued)**

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operations:		
Operating income	\$ 20,729,510	\$ 13,639,224
Adjustments to reconcile net operating income to cash provided by operating activities -		
Depreciation	21,965,284	19,921,328
Settlement income	412,746	812,795
Transfers to Sanitation System	(3,031,341)	(3,088,270)
Changes in -		
Accounts receivable	(312,154)	(1,492,850)
Materials and supplies	(749,388)	(227,669)
Prepaid expenses	(185,147)	32,752
Accounts payable	(5,421)	9,877
Due to other governments	11,043	815,714
Payroll and compensated absences payable	(964,345)	173,239
Other current liabilities	7,226	77
Long-term compensated absences payable	638,637	722,013
Customer deposits	63,022	20,847
Claims liabilities	(52,059)	232,388
Net cash provided by operating activities	<u>\$ 38,527,613</u>	<u>\$ 31,571,465</u>
Reconciliation of Cash and Cash Equivalents per Statements of Cash Flows to the Balance Sheets:		
Cash and investments	\$ 15,714,765	\$ 6,489,835
Restricted assets	<u>159,745,207</u>	<u>144,791,041</u>
	175,459,972	151,280,876
Less notes receivable and investments	(20,167,285)	(96,236,255)
Cash and cash equivalents	<u>\$ 155,292,687</u>	<u>\$ 55,044,621</u>
Supplemental Schedule of Noncash Investing, Capital and Financing Activities:		
Property contributed by developers and others	<u>\$ 689,157</u>	<u>\$ 2,375,861</u>
Unrealized appreciation in fair value of investments	<u>\$ 509,361</u>	<u>\$ 3,261,662</u>

EMERALD COAST UTILITIES AUTHORITY
WATER AND WASTEWATER SYSTEM
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEAR ENDED SEPTEMBER 30, 2011

	Actual (GAAP Basis)	Adjustment to Budgetary Basis	Actual (Budgetary Basis)
Operating Revenues:			
Customer charges -			
Wastewater	\$ 41,334,031	\$	\$ 41,334,031
Water	34,458,119		34,458,119
Connection charges	262,858		262,858
Sewer improvement fees	5,891,646		5,891,646
Charges for overhead	3,304,425	(3,031,341)	273,084
Other	4,361,735		4,361,735
Total operating revenues	<u>89,612,814</u>	<u>(3,031,341)</u>	<u>86,581,473</u>
Operating Expenses Before Depreciation:			
Personal services	26,722,992	(80,094)	26,642,898
Contractual services	2,087,941		2,087,941
Professional services	653,063		653,063
Supplies	4,764,781		4,764,781
Repairs and maintenance	2,149,949		2,149,949
Heat, light and power	7,484,610		7,484,610
Other	3,054,684		3,054,684
Total operating expenses before depreciation	<u>46,918,020</u>	<u>(80,094)</u>	<u>46,837,926</u>
Operating Income Before Depreciation	42,694,794	(2,951,247)	39,743,547
Depreciation	21,965,284	(21,965,284)	-
Operating income	<u>20,729,510</u>	<u>19,014,037</u>	<u>39,743,547</u>
Nonoperating Revenues (Expenses):			
Investment income	807,371		807,371
Settlement income	412,746		412,746
Interest expense	(14,512,004)	(2,136,328)	(16,648,332)
Loss on disposal of assets	(31,032,046)	31,032,046	-
Total nonoperating revenues (expenses)	<u>(44,323,933)</u>	<u>28,895,718</u>	<u>(15,428,215)</u>
Income (Loss) Before Capital Contributions, Transfers And Other Financing Sources (Uses)	(23,594,423)	47,909,755	24,315,332
Capital contributions - impact fees and other	2,403,330		2,403,330
Capital contributions - noncash	689,157	(689,157)	-
Transfers to Sanitation System	(3,031,341)	3,031,341	-
Principal sinking fund requirements	<u>-</u>	<u>(11,382,968)</u>	<u>(11,382,968)</u>
Change in Net Assets	<u>\$ (23,533,277)</u>	<u>\$ 38,868,971</u>	<u>\$ 15,335,694</u>

Budget	Variance- Favorable (Unfavorable)
\$ 41,334,031	\$ -
34,462,317	(4,198)
281,889	(19,031)
5,891,633	13
273,084	-
1,453,166	2,908,569
83,696,120	2,885,353
29,682,056	3,039,158
2,635,004	547,063
785,588	132,525
6,629,064	1,864,283
2,778,011	628,062
7,566,523	81,913
3,663,949	609,265
53,740,195	6,902,269
29,955,925	9,787,622
-	-
29,955,925	9,787,622
1,121,659	(314,288)
412,746	-
(20,450,287)	3,801,955
-	-
(18,915,882)	3,487,667
11,040,043	13,275,289
1,721,950	681,380
-	-
-	-
(8,677,765)	(2,705,203)
\$ 4,084,228	\$ 11,251,466

**EMERALD COAST UTILITIES AUTHORITY
SANITATION SYSTEM
COMPARATIVE SCHEDULES OF ASSETS, LIABILITIES AND NET ASSETS
SEPTEMBER 30, 2011 AND 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Unrestricted assets -		
Cash and investments	\$ 50	\$ 50
Accounts receivable less allowance for doubtful accounts of \$57,600 and \$54,200	1,323,181	1,151,495
Materials and supplies	1,083,148	1,013,514
Prepaid expenses	2,185	-
Restricted assets -		
Restricted by debt agreements - Sinking fund	602,899	587,543
 Total current assets	 <u>3,011,463</u>	 <u>2,752,602</u>
Noncurrent Assets:		
Restricted assets -		
Restricted by debt agreements -		
Renewal and replacement fund	148,770	145,410
Operating and maintenance fund	1,298,636	1,216,629
Capital improvement program	1,350,565	1,834,494
Total noncurrent restricted assets	<u>2,797,971</u>	<u>3,196,533</u>
Capital assets -		
Utility plant in service	32,091,201	30,032,304
Construction work in progress	216,977	854
Intangible assets	14,996,954	14,996,954
	<u>47,305,132</u>	<u>45,030,112</u>
Less accumulated depreciation and amortization	26,893,489	24,451,242
Total capital assets	<u>20,411,643</u>	<u>20,578,870</u>
Unamortized debt issuance costs (net of accumulated amortization \$229,632 and \$214,999)	<u>151,207</u>	<u>165,840</u>
 Total noncurrent assets	 <u>23,360,821</u>	 <u>23,941,243</u>
 Total Assets	 <u><u>\$ 26,372,284</u></u>	 <u><u>\$ 26,693,845</u></u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
Current Liabilities (Payable From Current Assets):		
Accounts payable	\$ 772,842	\$ 848,203
Due to other governments	9,942	10,122
Payroll and compensated absences payable	<u>267,484</u>	<u>480,278</u>
Total current liabilities (payable from current assets)	<u>1,050,268</u>	<u>1,338,603</u>
Current Liabilities (Payable From Restricted Assets):		
Current portion of long-term debt	665,000	635,000
Accrued interest payable	104,149	111,293
Accounts payable - capital improvements	115,262	81,668
Claims liabilities	<u>408,383</u>	<u>467,134</u>
Total current liabilities (payable from restricted assets)	<u>1,292,794</u>	<u>1,295,095</u>
Total current liabilities	<u>2,343,062</u>	<u>2,633,698</u>
Long-Term Liabilities:		
Long-term debt	7,627,362	8,201,138
Long-term compensated absences and benefits payable	<u>823,055</u>	<u>634,626</u>
Total long-term liabilities	<u>8,450,417</u>	<u>8,835,764</u>
Total liabilities	<u>10,793,479</u>	<u>11,469,462</u>
Net Assets:		
Invested in capital assets, net of related debt	12,015,132	11,631,439
Restricted for debt service and other bond requirements	2,050,305	1,949,582
Unrestricted	<u>1,513,368</u>	<u>1,643,362</u>
Total net assets	<u>15,578,805</u>	<u>15,224,383</u>
Total Liabilities and Net Assets	<u><u>\$ 26,372,284</u></u>	<u><u>\$ 26,693,845</u></u>

**EMERALD COAST UTILITIES AUTHORITY
SANITATION SYSTEM
COMPARATIVE SCHEDULES OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>Residential</u>	<u>Commercial</u>	<u>Total 2011</u>	<u>Total 2010</u>
Operating Revenues:				
Customer charges -				
Sanitation	\$ 17,404,254	\$ 1,324,125	\$ 18,728,379	\$ 17,947,986
Other	383,601	217,829	601,430	271,029
	<u>17,787,855</u>	<u>1,541,954</u>	<u>19,329,809</u>	<u>18,219,015</u>
Operating Expenses Before Depreciation and Amortization:				
Personal services	6,464,444	523,590	6,988,034	6,949,067
Contractual services	580,023	8,982	589,005	537,014
Professional services	20,162	4,148	24,310	35,433
Supplies	1,824,415	123,273	1,947,688	1,537,903
Repairs and maintenance	1,182,772	71,885	1,254,657	1,229,159
Heat, light and power	77,982	1,885	79,867	76,663
Tipping fees	3,837,157	293,045	4,130,202	3,774,238
Overhead allocation	3,206,948	97,477	3,304,425	3,328,865
Other	214,290	7,402	221,692	411,475
	<u>17,408,193</u>	<u>1,131,687</u>	<u>18,539,880</u>	<u>17,879,817</u>
Operating Income Before Depreciation and Amortization	379,662	410,267	789,929	339,198
Depreciation and Amortization	<u>2,616,536</u>	<u>378,997</u>	<u>2,995,533</u>	<u>2,829,561</u>
Operating loss	<u>(2,236,874)</u>	<u>31,270</u>	<u>(2,205,604)</u>	<u>(2,490,363)</u>
Nonoperating Revenues (Expenses):				
Investment income	8,327	-	8,327	8,289
Interest expense	(521,202)	(3,674)	(524,876)	(580,008)
Gain on disposal of assets	45,234	-	45,234	117,130
	<u>(467,641)</u>	<u>(3,674)</u>	<u>(471,315)</u>	<u>(454,589)</u>
Loss Before Transfers	(2,704,515)	27,596	(2,676,919)	(2,944,952)
Transfers from Water and Wastewater System	<u>3,031,341</u>	<u>-</u>	<u>3,031,341</u>	<u>3,088,270</u>
Change in Net Assets	<u>\$ 326,826</u>	<u>\$ 27,596</u>	<u>354,422</u>	<u>143,318</u>
Net Assets at Beginning of Year			<u>15,224,383</u>	<u>15,081,065</u>
Net Assets at End of Year			<u>\$ 15,578,805</u>	<u>\$ 15,224,383</u>

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
SANITATION SYSTEM
COMPARATIVE SCHEDULES OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers and others	\$ 19,158,123	\$ 18,195,258
Cash paid to suppliers for goods and services	(10,982,659)	(9,935,885)
Cash paid to employees for services	(4,756,356)	(4,470,750)
Net cash provided by operating activities	<u>3,419,108</u>	<u>3,788,623</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(2,800,603)	(1,680,781)
Principal paid on long-term debt	(635,000)	(1,179,616)
Interest paid on long-term debt	(426,163)	(480,808)
Proceeds from sale of assets	51,125	119,755
Net cash used for capital and related financing activities	<u>(3,810,641)</u>	<u>(3,221,450)</u>
Cash Flows From Investing Activities:		
Investment income	8,327	8,289
Net cash provided by investing activities	<u>8,327</u>	<u>8,289</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(383,206)	575,462
Cash and Cash Equivalents, Beginning of Year	<u>3,784,126</u>	<u>3,208,664</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,400,920</u>	<u>\$ 3,784,126</u>

**EMERALD COAST UTILITIES AUTHORITY
SANITATION SYSTEM
COMPARATIVE SCHEDULES OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(Continued)**

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Operating loss	\$ (2,205,604)	\$ (2,490,363)
Adjustments to reconcile net operating loss to cash provided by operating activities -		
Depreciation and amortization	2,995,533	2,829,561
Transfers from Water and Wastewater System	3,031,341	3,088,270
Changes in -		
Accounts receivable	(171,686)	(23,757)
Materials and supplies	(69,634)	(71,291)
Prepaid expenses	(2,185)	-
Accounts payable	(75,361)	183,180
Due to other governments	(180)	648
Payroll and compensated absences payable	(212,794)	28,839
Long-term compensated absences payable	188,429	211,451
Claims liabilities	(58,751)	32,085
Net cash provided by operating activities	<u>\$ 3,419,108</u>	<u>\$ 3,788,623</u>

**Reconciliation of Cash and Cash Equivalents per
Statements of Cash Flows to the Balance Sheets:**

Cash and investments	\$ 50	\$ 50
Restricted assets	3,400,870	3,784,076
Cash and cash equivalents	<u>\$ 3,400,920</u>	<u>\$ 3,784,126</u>

**Supplemental Schedule of Noncash Investing, Capital
and Financing Activities:**

Unrealized appreciation in fair value of investments	<u>\$ -</u>	<u>\$ 49,189</u>
--	-------------	------------------

**EMERALD COAST UTILITIES AUTHORITY
SANITATION SYSTEM
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEAR ENDED SEPTEMBER 30, 2011**

	Actual (GAAP Basis)	Adjustment to Budgetary Basis	Actual (Budgetary Basis)
Operating Revenues:			
Customer charges -			
Sanitation	\$ 18,728,379	\$	\$ 18,728,379
Other	601,430		601,430
Total operating revenues	<u>19,329,809</u>	<u>-</u>	<u>19,329,809</u>
Operating Expenses Before Depreciation and Amortization:			
Personal services	6,988,034		6,988,034
Contractual services	589,005		589,005
Professional services	24,310		24,310
Supplies	1,947,688		1,947,688
Repairs and maintenance	1,254,657		1,254,657
Heat, light and power	79,867		79,867
Tipping	4,130,202		4,130,202
Overhead allocation	3,304,425	(3,031,341)	273,084
Other	221,692		221,692
Total operating expenses before depreciation	<u>18,539,880</u>	<u>(3,031,341)</u>	<u>15,508,539</u>
Operating Income Before Depreciation and Amortization	789,929	3,031,341	3,821,270
Depreciation and Amortization	<u>2,995,533</u>	<u>(2,995,533)</u>	<u>-</u>
Operating income (loss)	<u>(2,205,604)</u>	<u>6,026,874</u>	<u>3,821,270</u>
Nonoperating Revenues (Expenses):			
Investment income	8,327		8,327
Interest expense	(524,876)	(4,723)	(529,599)
Gain on disposal of assets	45,234		45,234
Total nonoperating revenues (expenses)	<u>(471,315)</u>	<u>(4,723)</u>	<u>(476,038)</u>
Income (Loss) Before Transfers and Other Financing Sources (Uses)	(2,676,919)	6,022,151	3,345,232
Transfers from Water and Wastewater System	3,031,341	(3,031,341)	-
Principal sinking fund requirements	<u>-</u>	<u>(635,000)</u>	<u>(635,000)</u>
Changes in Net Assets	<u>\$ 354,422</u>	<u>\$ 2,355,810</u>	<u>\$ 2,710,232</u>

<u>Budget</u>	<u>Variance - Favorable (Unfavorable)</u>
\$ 18,847,215	\$ (118,836)
551,500	49,930
<u>19,398,715</u>	<u>(68,906)</u>
7,114,023	125,989
589,005	-
24,310	-
1,947,702	14
1,254,661	4
79,867	-
4,130,202	-
273,084	-
<u>443,861</u>	<u>222,169</u>
<u>15,856,715</u>	<u>348,176</u>
3,542,000	279,270
<u>-</u>	<u>-</u>
<u>3,542,000</u>	<u>279,270</u>
8,300	27
(552,099)	22,500
-	45,234
<u>(543,799)</u>	<u>67,761</u>
2,998,201	347,031
-	-
<u>(529,143)</u>	<u>(105,857)</u>
<u>\$ 2,469,058</u>	<u>\$ 241,174</u>

This page intentionally left blank.

STATISTICAL SECTION - UNAUDITED

STATISTICAL SECTION - UNAUDITED

This part of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the Authority's financial performance and well being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the Authority's revenue sources.

Debt Capacity

These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules present information to help the reader understand the environment within which the Authority's financial activities take place.

Operating Information

These schedules contain service data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides.

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(THOUSANDS OMITTED)
(UNAUDITED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Invested in capital assets,										
net of related debt	\$ 382,131	\$ 435,474	\$ 389,252	\$ 231,048	\$ 203,550	\$ 156,525	\$ 141,404	\$ 127,737	\$ 118,793	\$ 103,138
Restricted	50,043	44,601	42,241	39,086	37,619	33,629	35,311	32,538	31,332	30,866
Unrestricted	37,649	12,926	39,945	55,893	56,214	62,556	53,643	56,157	58,340	66,149
Total net assets	<u>\$ 469,823</u>	<u>\$ 493,001</u>	<u>\$ 471,438</u>	<u>\$ 326,027</u>	<u>\$ 297,383</u>	<u>\$ 252,710</u>	<u>\$ 230,358</u>	<u>\$ 216,432</u>	<u>\$ 208,465</u>	<u>\$ 200,153</u>

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULES OF REVENUES AND EXPENSES
LAST TEN FISCAL YEARS
(THOUSANDS OMITTED)
(UNAUDITED)**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Operating Revenues:										
Customer charges	\$ 94,520	\$ 87,359	\$ 83,454	\$ 80,812	\$ 80,163	\$ 76,713	\$ 69,022	\$ 67,767	\$ 64,569	\$ 64,756
Connection charges	263	232	246	467	705	755	814	565	488	435
Sewer improvement fees	5,892	5,918	5,924	6,097	2,020	-	-	-	-	-
Other	4,963	2,266	2,578	2,870	1,447	1,992	1,129	918	795	890
Total operating revenues	105,638	95,775	92,202	90,246	84,335	79,460	70,965	69,250	65,852	66,081
Operating Expenses Before										
Depreciation and Amortization:										
Personal services	33,711	34,574	34,779	32,470	30,647	27,684	26,873	25,442	23,680	22,488
Contractual services	2,677	3,061	2,253	2,879	2,493	2,315	2,006	1,512	1,721	1,683
Professional services	677	740	845	482	605	516	808	793	584	570
Supplies	6,712	6,023	6,142	6,685	6,019	5,412	4,837	4,573	4,778	4,618
Repairs and maintenance	3,405	3,459	3,119	3,797	3,926	4,229	4,276	3,664	3,722	3,215
Heat, light and power	7,565	6,652	6,390	5,400	5,309	4,848	4,709	3,978	3,653	3,252
Tipping fees	4,130	3,774	3,651	3,516	3,285	3,317	3,286	3,090	3,044	2,943
Other	3,276	3,592	3,899	3,931	4,202	3,498	3,587	3,061	3,539	3,208
Total operating expenses before depreciation and amortization	62,153	61,875	61,078	59,160	56,486	51,819	50,382	46,113	44,721	41,977
Operating Income Before										
Depreciation and Amortization:	43,485	33,900	31,124	31,086	27,849	27,641	20,583	23,137	21,131	24,104
Depreciation and Amortization	24,961	22,751	19,340	18,152	16,122	14,569	13,380	12,727	11,729	10,286
Operating income	18,524	11,149	11,784	12,934	11,727	13,072	7,203	10,410	9,402	13,818

EMERALD COAST UTILITIES AUTHORITY
SCHEDULES OF REVENUES AND EXPENSES
LAST TEN FISCAL YEARS
(THOUSANDS OMITTED)
(UNAUDITED)
(Continued)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Nonoperating Revenues (Expenses):										
Investment income	816	2,297	4,054	5,132	5,427	4,215	2,699	1,753	1,778	4,378
Settlement income	413	813	10,047	-	-	-	-	-	-	-
Interest expense	(15,037)	(12,907)	(14,102)	(9,864)	(9,169)	(9,009)	(9,245)	(9,796)	(9,305)	(9,063)
Main Street WWTP repairs	-	-	-	-	-	-	-	(626)	(1,138)	(1,103)
Hurricane disaster assistance, net	-	-	-	(327)	(33)	(124)	1,303	(36)	60	70
Insurance recoveries, net	-	-	-	-	-	-	911	44	-	-
Gain (loss) on disposal of assets	(30,987)	(865)	(818)	(226)	(1,457)	(498)	(59)	(792)	(1,080)	(1,144)
Total nonoperating revenues (expenses)	(44,795)	(10,662)	(819)	(5,285)	(5,232)	(5,416)	(4,391)	(9,453)	(9,685)	(6,862)
Income (Loss) Before Capital Contributions	(26,271)	487	10,965	7,649	6,495	7,656	2,812	957	(283)	6,956
Capital contributions - cash	2,403	18,700	133,868	15,431	25,909	9,670	7,818	5,384	6,717	6,192
Capital contributions - noncash	689	2,376	578	5,564	12,269	5,026	3,296	1,625	1,878	2,927
Change in Net Assets	<u>\$ (23,179)</u>	<u>\$ 21,563</u>	<u>\$ 145,411</u>	<u>\$ 28,644</u>	<u>\$ 44,673</u>	<u>\$ 22,352</u>	<u>\$ 13,926</u>	<u>\$ 7,966</u>	<u>\$ 8,312</u>	<u>\$ 16,075</u>

**EMERALD COAST UTILITIES AUTHORITY
OUTSTANDING DEBT BY TYPE AND PER WATER CUSTOMER
LAST TEN FISCAL YEARS
(UNAUDITED)**

OUTSTANDING DEBT BY TYPE

Year	State Revolving Loans	Capital Leases	Water and Wastewater System Bonds	Sanitation System Bonds	Water and Wastewater System Notes	Total
2002	\$ 567,643	\$ -	\$ 155,848,578	\$ 12,891,355	\$ -	\$ 169,307,576
2003	\$ 567,643	\$ -	\$ 173,652,303	\$ 12,207,578	\$ -	\$ 186,427,524
2004	\$ 567,643	\$ -	\$ 168,147,176	\$ 11,698,800	\$ -	\$ 180,413,619
2005	\$ 3,163,288	\$ 70,455	\$ 162,082,871	\$ 11,165,023	\$ -	\$ 176,481,637
2006	\$ 6,697,534	\$ 46,701	\$ 172,971,792	\$ 10,746,247	\$ -	\$ 190,462,274
2007	\$ 12,447,691	\$ 23,107	\$ 166,138,867	\$ 10,307,470	\$ -	\$ 188,917,135
2008	\$ 20,589,473	\$ 15,880,016	\$ 159,045,915	\$ 9,843,693	\$ 130,000,000	\$ 335,359,097
2009	\$ 20,080,754	\$ 14,815,860	\$ 151,501,398	\$ 9,349,916	\$ 130,000,000	\$ 325,747,928
2010	\$ 41,285,144	\$ 13,706,821	\$ 144,003,294	\$ 8,836,138	\$ 129,885,000	\$ 337,716,397
2011	\$ 57,960,646	\$ 13,148,796	\$ 135,958,985	\$ 8,292,362	\$ 172,084,000	\$ 387,444,789

OUTSTANDING DEBT PER WATER CUSTOMER

Year	Total Debt	Total Customers	Debt Per Customer
2002	\$ 169,307,576	86,826	\$ 1,950
2003	\$ 186,427,524	87,736	\$ 2,125
2004	\$ 180,413,619	88,024	\$ 2,050
2005	\$ 176,481,637	88,727	\$ 1,989
2006	\$ 190,462,274	89,692	\$ 2,124
2007	\$ 188,917,135	90,337	\$ 2,091
2008	\$ 335,359,097	89,716	\$ 3,738
2009	\$ 325,747,928	88,470	\$ 3,682
2010	\$ 337,716,397	88,723	\$ 3,806
2011	\$ 387,444,789	88,653	\$ 4,370

**EMERALD COAST UTILITIES AUTHORITY
DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Year</u>	<u>Operating Revenue and Interest Income</u>	<u>Operating Expenses Before Depreciation and Amortization</u>	<u>Net Revenue Available For Debt Service</u>	<u>Debt Service</u>	<u>Actual Coverage</u>	<u>Required Coverage</u>
2002	\$ 68,698,595	\$ 41,977,118	\$ 26,721,477	\$ 16,216,871	1.65	1.25
2003	\$ 67,183,089	\$ 44,720,787	\$ 22,462,302	\$ 16,563,987	1.36	1.25
2004	\$ 70,314,029	\$ 46,111,568	\$ 24,202,461	\$ 17,041,375	1.42	1.25
2005	\$ 73,067,161	\$ 50,382,004	\$ 24,454,093	\$ 16,278,953	1.50	1.25
2006	\$ 83,299,789	\$ 51,819,044	\$ 31,480,745	\$ 16,631,968	1.89	1.25
2007	\$ 88,912,836	\$ 56,485,926	\$ 32,426,910	\$ 17,775,258	1.82	1.25
2008	\$ 93,658,613	\$ 59,159,846	\$ 34,498,767	\$ 19,573,227	1.76	1.25
2009	\$ 95,012,742	\$ 61,078,331	\$ 33,934,411	\$ 25,044,035	1.35	1.25
2010	\$ 96,531,362	\$ 61,875,496	\$ 34,655,866	\$ 23,897,498	1.45	1.25
2011	\$ 106,768,233	\$ 62,153,475	\$ 44,614,758	\$ 24,567,207	1.82	1.25

EMERALD COAST UTILITIES AUTHORITY
NUMBER OF ACTIVE CUSTOMERS AT FISCAL YEAR END
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Year</u>	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Ratio of Sewer Customers To Water Customers</u>
2002	86,826	57,857	61,191	67%
2003	87,736	59,528	62,319	68%
2004	88,024	60,863	63,496	69%
2005	88,727	62,048	63,342	70%
2006	89,692	63,527	64,653	71%
2007	90,337	65,101	65,298	72%
2008	89,716	65,216	65,043	73%
2009	88,470	64,741	78,205	73%
2010	88,723	65,268	79,417	74%
2011	88,653	65,633	78,995	74%

EMERALD COAST UTILITIES AUTHORITY
PRINCIPAL CUSTOMERS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2011 AND 2002
(UNAUDITED)

Name	Water Sales in Millions of Gallons	2011 Annual Revenue			Percentage of Total Revenue
		Water	Sewer	Total	
NAVFAC SE (NAS Pensacola)	-	\$ -	\$ 1,646,980	\$ 1,646,980	1.6
Baptist Hospital	83.8	184,640	467,543	652,183	0.6
NAVFAC SE (Corry Station SW)	-	-	578,651	578,651	0.5
Escambia County Jail	69.9	142,701	341,877	484,578	0.5
Pall Gelman Sciences	63.0	125,793	304,594	430,387	0.4
Portofino Island Resort	49.1	184,935	244,319	429,254	0.4
Escambia Housing	51.5	117,409	299,635	417,044	0.4
University of West Florida	-	497	329,990	330,487	0.3
Columbia West Florida Regional Medical Center	41.0	85,638	238,915	324,553	0.3
Sacred Heart Hospital	41.5	95,523	225,467	320,990	0.3
U.S. Navy--Saufley Field	39.3	71,900	187,619	259,519	0.2
Pensacola Christian College	31.6	72,766	152,312	225,078	0.2
Crown Health Care & Laundry	32.7	65,347	152,387	217,734	0.2
DM Oakwood Terrace	25.2	51,607	146,841	198,448	0.2
Perdido Housing	22.3	50,125	129,829	179,954	0.2
	<u>550.9</u>	<u>\$ 1,248,881</u>	<u>\$ 5,446,959</u>	<u>\$ 6,695,840</u>	<u>6.3</u>

Name	Water Sales in Millions of Gallons	2002 Annual Revenue			Percentage of Total Revenue
		Water	Sewer	Total	
Pensacola Christian College	92.6	\$ 129,336	\$ 354,649	\$ 483,985	0.8
Baptist Hospital	66.0	97,333	261,893	359,226	0.6
City of Gulf Breeze	373.1	343,264	-	343,264	0.5
Escambia County Jail	62.2	87,362	208,402	295,764	0.4
U.S. Navy--Saufley Field	49.3	60,702	133,117	193,819	0.3
Columbia West Florida Regional Medical Center	35.3	50,818	140,161	190,979	0.3
University of West Florida	0.1	178	185,711	185,889	0.3
Pall Gelman Sciences	35.9	48,444	136,381	184,825	0.3
Perdido Housing	33.2	47,881	131,606	179,487	0.3
Sacred Heart Hospital	34.5	52,133	124,522	176,655	0.3
Crown Health Care & Laundry	38.1	51,785	121,084	172,869	0.3
Area Housing Commission	29.1	42,619	115,511	158,130	0.2
Clerk of the Court- M.C. Blanchard Building	20.9	28,903	82,982	111,885	0.2
Pensacola Village Apartments	19.4	27,154	77,109	104,263	0.2
C.A. Cobbs, Jr.	17.4	24,035	69,252	93,287	0.1
	<u>907.1</u>	<u>\$ 1,091,947</u>	<u>\$ 2,142,380</u>	<u>\$ 3,234,327</u>	<u>5.1</u>

**EMERALD COAST UTILITIES AUTHORITY
PRINCIPAL EMPLOYERS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2011 AND 2002
(UNAUDITED)**

2011

<u>Name</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment</u>
Local Government	15,790	9.22%
Federal Government	7,403	4.32%
State Government	5,970	3.49%
Sacred Heart Health System	5,000	2.92%
Baptist Health Care	3,163	1.85%
Lakeview Center	2,000	1.17%
Gulf Power Company	1,400	0.82%
Ascend Performance Materials (formerly Solutia, Inc.)	1,400	0.82%
West Florida Hospital	1,300	0.76%
University of West Florida	1,231	0.72%
Navy Federal Credit Union	1,200	0.70%
	<u>45,857</u>	<u>26.79%</u>

2002

<u>Name</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment</u>
Federal Government	26,540	15.20%
Local Government	10,857	6.25%
Baptist Health Care	5,000	2.87%
State Government	4,759	2.75%
Sacred Heart Health System	3,372	2.01%
West Florida Regional Medical Center	1,750	1.03%
Solutia, Inc. (formerly Monsanto Co.)	1,500	0.86%
University of West Florida	1,500	0.86%
Gulf Power Company	1,300	0.75%
GE Automation Services	1,250	0.63%
	<u>57,828</u>	<u>33.21%</u>

Source: Pensacola Chamber of Commerce, Enterprise Florida, Inc., Reference USA, and Florida Research and Economic Development Labor Market Statistics.

Notes: Principal employer information is only available on a calendar year basis for the Pensacola Metropolitan Statistical Area. Actual numbers are not available, therefore estimates are presented.

**EMERALD COAST UTILITIES AUTHORITY
RECORDED RAINFALL
(UNAUDITED)**

Pensacola, Florida
October 2010 - September 2011

<u>Month</u>	<u>Monthly Rainfall (inches)</u>
October	0.38
November	7.33
December	1.48
January	4.09
February	3.02
March	6.80
April	0.76
May	2.65
June	1.64
July	9.58
August	2.27
September	8.15
	<u>48.15</u>

Pensacola, Florida
Last Ten Fiscal Years

<u>Year</u>	<u>Annual Rainfall (inches)</u>
2002	54.29
2003	71.19
2004	58.44
2005	95.03
2006	45.53
2007	41.42
2008	71.00
2009	72.40
2010	83.65
2011	48.15

Source: National Oceanic and Atmospheric Administration
www.srh.noaa.gov

**EMERALD COAST UTILITIES AUTHORITY
WATER CONSUMPTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Year</u>	<u>Pumped (Millions of gallons)</u>	<u>Consumption Billed (Millions of gallons)</u>	<u>Unaccounted For (Millions of gallons)</u>	<u>Percentage Unaccounted For</u>
2002	13,536	12,491	1,045	7.72%
2003	12,149	10,995	1,154	9.50%
2004	12,585	11,527	1,058	8.41%
2005	12,543	10,955	1,588	12.66%
2006	13,808	12,660	1,148	8.31%
2007	13,357	11,857	1,500	11.23%
2008	12,159	11,001	1,158	9.52%
2009	11,583	10,504	1,079	9.32%
2010	12,253	10,511	1,742	14.22%
2011	12,725	11,592	1,133	8.90%
	<u>126,698</u>	<u>114,093</u>	<u>12,605</u>	<u>9.95%</u>

**EMERALD COAST UTILITIES AUTHORITY
SEWAGE PLANT FLOWS
(MILLIONS OF GALLONS)
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Year</u>	<u>Central Water Reclamation Facility (1)</u>	<u>Main Street Wastewater Treatment Plant (2)</u>	<u>Bayou Marcus Water Reclamation Facility</u>	<u>Pensacola Beach Wastewater Treatment Plant</u>	<u>Total</u>
2002		4,747	1,398	304	6,449
2003		5,315	1,584	303	7,202
2004		5,636	1,648	293	7,577
2005		6,605	1,880	291	8,776
2006		5,785	1,802	283	7,870
2007		5,549	1,813	275	7,637
2008		6,060	1,931	322	8,313
2009		5,620	1,951	307	7,878
2010		6,002	2,374	329	8,705
2011	<u>3,736</u>	<u>1,312</u>	<u>2,116</u>	<u>300</u>	<u>7,464</u>
	<u><u>3,736</u></u>	<u><u>52,631</u></u>	<u><u>18,497</u></u>	<u><u>3,007</u></u>	<u><u>77,871</u></u>

Notes: (1) The Central Water Reclamation Facility began accepting sewage flows August 30, 2010.
(2) The Main Street Wastewater Treatment Plant was taken offline April 28, 2011.

**EMERALD COAST UTILITIES AUTHORITY
OPERATING INDICATORS
LAST TEN FISCAL YEARS
(UNAUDITED)**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Water:										
New connections	438	424	437	659	1,192	1,232	1,978	1,764	1,592	1,577
Average daily consumption (MGD)	34.816	33.560	32.914	34.473	33.617	36.430	31.781	29.005	33.248	37.047
Maximum daily flow (MGD)	54.033	45.590	58.426	55.466	60.092	65.375	53.745	56.770	49.384	57.851
Minimum daily flow (MGD)	22.436	24.680	24.242	25.105	25.747	26.200	26.526	24.883	25.772	25.466
Raw water pumped and treated (MG)	12,725	12,253	11,583	12,159	13,357	13,808	12,543	12,585	12,149	13,536
Wastewater:										
New connections	494	556	569	560	1,460	1,333	1,846	2,107	2,031	1,862
Average daily treated flow (MGD)	0.677	0.782	0.711	0.750	0.689	0.710	0.792	0.602	0.661	0.581
Treatment capacity (MGD)	33.100	30.600	30.600	30.600	30.600	30.600	30.600	30.600	30.600	30.600
Wastewater collected and treated (MG)	20.583	23.776	21.598	22.800	20.931	21.574	24.069	18.249	20.097	17.668
Percent of capacity utilized	72.5	75.5	71.2	72.6	68.8	76.3	72.1	59.0	61.4	57.8
Percent of unused capacity	27.5	24.5	28.8	27.4	31.2	23.7	27.9	41.0	38.6	42.2
Sanitation System:										
Residential (tons/year)	70,239	73,555	75,094	79,877	80,639	82,216	90,222	81,389	79,176	75,665
Yard waste (tons/year)	17,711	14,479	13,069	12,332	11,279	11,481	9,465	15,300	17,369	17,151
Bulk waste (tons/year)	2,602	3,015	2,958	2,726	3,729	4,698	2,519	3,559	2,837	1,785
Total residential tons	90,552	91,049	91,121	94,935	95,647	98,395	102,206	100,248	99,382	94,601
Average number of customers/month	73,300	73,300	73,100	62,131	62,445	62,205	62,407	62,407	61,217	59,710
Refuse collected (tons/customer/year)	1.235	1.242	1.247	1.528	1.532	1.582	1.638	1.606	1.623	1.584
Commercial (tons/year)	10,388	6,678	9,308	18,314	15,558	15,131	14,407	14,591	15,233	16,120
Roll-off (tons/year)	1,128	1,627	3,603	6,567	9,802	8,543	3,331	2,182	1,564	1,617
Total commercial tons	11,516	8,305	12,911	24,881	25,360	23,674	17,738	16,773	16,797	17,737
Average number of customers/month	1,338	1,395	837	2,912	2,853	2,448	935	1,089	1,102	1,481
Refuse collected (tons/customer/year)	8.607	5.953	15.425	8.544	8.889	9.671	18.971	15.402	15.242	11.976

**EMERALD COAST UTILITIES AUTHORITY
MISCELLANEOUS STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

HOME SALES

Year	Single Family		Townhouse/Condominium	
	Number	Average Price	Number	Average Price
2002	6,324	105,012	896	180,273
2003	6,991	114,259	1,336	261,557
2004	7,755	131,703	1,337	349,723
2005	7,974	150,639	1,008	361,299
2006	5,788	155,304	1,175	468,699
2007	4,338	149,173	734	490,411
2008	3,058	140,700	385	419,451
2009	2,589	132,352	434	328,628
2010	2,782	120,900	413	254,111
2011	2,708	123,040	509	257,420

Source: Metro Market Trends

CONSTRUCTION STARTS

	Commercial		Residential	
	Number of Units	Value (\$000)	Number of Units	Value (\$000)
2002	156	217,475	1,567	153,114
2003	124	90,338	1,605	173,803
2004	137	309,087	1,674	188,765
2005	152	286,068	1,834	265,200
2006	134	211,639	1,237	244,313
2007	182	189,003	948	143,129
2008	94	162,276	555	85,386
2009 (1)			534	181,323
2010 (1)			568	178,646
2011 (1)			639	184,737

Source: Escambia County Building Inspection Department
U. S. Census Bureau

(1) The information for commercial construction starts is no longer readily available and could not be obtained from 2009 to the current year.

**EMERALD COAST UTILITIES AUTHORITY
MISCELLANEOUS STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

ESCAMBIA COUNTY POPULATION

<u>Year</u>	<u>Population</u>	<u>Change</u>	<u>Percent Change</u>
2002	299,485	2,776	0.94%
2003	303,310	3,825	1.28%
2004	307,226	3,916	1.29%
2005	303,623	(3,603)	-1.17%
2006	309,647	6,024	1.98%
2007	311,775	2,128	0.69%
2008	313,480	1,705	0.55%
2009	312,980	(500)	-0.16%
2010 (1)	311,184	(1,796)	-0.57%
2011	307,412	(3,772)	-1.21%

Source: Florida Statistical Abstract
Bureau of Economic and Business Research
University of Florida
EMSI Complete Employment - 2011

Note: (1) Reflects results of 2010 Census.

**EMERALD COAST UTILITIES AUTHORITY
MISCELLANEOUS STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

ESCAMBIA COUNTY STATISTICS

<u>Year</u>	<u>Estimated Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
2002	\$ 7,202,015	\$ 24,048	3.8%
2003	\$ 6,253,039	\$ 20,616	4.0%
2004	\$ 6,289,531	\$ 20,472	3.5%
2005	\$ 6,486,905	\$ 21,365	3.6%
2006	\$ 6,757,426	\$ 21,823	3.3%
2007	\$ 7,306,960	\$ 23,448	3.9%
2008	\$ 8,812,776	\$ 28,389	4.9%
2009	\$ 7,357,247	\$ 23,316	9.7%
2010	\$ N/A	\$ N/A	11.2%
2011	\$ 7,790,343	\$ 25,342	9.2%

Source: Personal income data provided by the University of West Florida Haas Center.
Information was not available for 2010.
Unemployment data provided by Labor Market Statistics (State of Florida).

**FULL-TIME EQUIVALENT
EMPLOYEES BY ACTIVITY**

<u>Year</u>	<u>Water and Wastewater System</u>	<u>Sanitation System</u>	<u>Total</u>
2002	408	96	504
2003	418	95	513
2004	415	101	516
2005	404	100	504
2006	405	111	516
2007	405	111	516
2008	422	115	537
2009	416	115	531
2010	415	115	530
2011	414	117	531

Source: Authority's annual budget

**EMERALD COAST UTILITIES AUTHORITY
MISCELLANEOUS STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)**

CAPITAL ASSET STATISTICS BY ACTIVITY

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Water:									
Wells	32	32	32	34	34	33	32	31	31
Water mains (miles)	1,680	1,678	1,713	1,591	1,762	1,762	1,762	1,762	1,762
Storage capacity (MGD)	14	14	14	14	14	14	14	14	14
Wastewater:									
Treatment plants	3	3	3	3	3	3	3	3	3
Sanitary sewer (miles)	1,202	1,198	1,294	1,079	1,089	1,089	1,089	1,089	1,089
Treatment capacity (MGD)	33	31	31	31	31	31	31	31	31
Sanitation:									
Collection vehicles	94	94	98	98	77	80	81	81	82

This page intentionally left blank.

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF INSURANCE
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Types of Coverage</u>	<u>Name of Company</u>	<u>Details of Coverage</u>	<u>Liability Limits</u>
Property Coverage	Florida Municipal Insurance Trust Policy #0162 (Florida League of Cities)	1) All Risk Coverage for structures, equipment and contents on schedules 2) Covers structures, equipment, and contents	(1) \$100,000,000 maximum blanket coverage. All risk for real property and contents per occurrence; \$100,000 deductible on wind and peril 2% and 5% deductible for distance to waterfront locations. (2) \$100,000,000 Total Coverage.
Flood Coverage	Fidelity National Property and Casualty (Fisher-Brown – Agent)	Property Schedules	Conditions: Coverage including flood for Flood in zones A, B and C, respectively
Automobiles	Florida Municipal Insurance Trust	All scheduled vehicles \$25,000 deductible on collision	\$1,000,000 Liability Limits
Boiler & Machinery	Florida Municipal Insurance Trust (as part of property coverage)	Comprehensive Coverage Pays loss from an accident to a covered object while in use or connected ready for use (as part of property coverage)	1) \$10,000,000 per accident 2) The limit of liability is paid on a repair or replacement basis Deductibles: \$100,000 each claim except equipment over 100HP
Environmental Pollution	Arch Insurance (Fisher-Brown – Agent)	Covers Fuel Storage Tanks Environmental impairment Liability	\$1,000,000 \$10,000 SIR per Claim

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF INSURANCE
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Types of Coverage</u>	<u>Name of Company</u>	<u>Details of Coverage</u>	<u>Liability Limits</u>
Business Interruption Coverage/Business Income	Florida Municipal Insurance Trust (as part of property coverage)	Covers actual loss of earnings sustained by ECUA resulting from necessary interruption of business	\$32,844,000
Business Interruption Coverage/Extra Expense	Florida Municipal Insurance Trust (as part of property coverage)	Covers necessary extra expense incurred by ECUA to continue as nearly as practicable the normal operation of business following damage to or destruction of real and personal property	\$5,000,000
Crime Coverage/Money & Securities	Hartford Insurance Group (Fisher- Brown – Agent)	1) Losses inside and outside of premises	1) \$75,000
		2) Depositor's Forgery	2) \$50,000
Crime Coverage/Honesty	Hartford Insurance Group (Fisher- Brown – Agent)	Bond covering losses through fraudulent or dishonest act; includes Finance Director	\$250,000
Comprehensive General Liability	ECUA Self Insured	Bodily injury and property damage	State of Florida (sovereign immunity)
Road Restoration	Western (Fisher-Brown – Agent)	Damages to DOT Roads	State of Florida Requirements

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF INSURANCE
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Types of Coverage</u>	<u>Name of Company</u>	<u>Details of Coverage</u>	<u>Liability Limits</u>
Public Officials Liability & E&O	RSUI Indemnity Company (Fisher- Brown – Agent)	<p>Pays on behalf of public officials and employees all losses which they shall be legally obligated to pay for civil claims against them because of wrongful acts</p> <p>Reimburses ECUA for losses in which it shall be required by law to indemnify public officials and employees for civil claims made against them because of wrongful acts</p>	<p>\$2,000,000 each loss and aggregate for each policy year</p> <p>\$25,000 retention each loss for Public Officials Liability</p>
Workers' Compensation	ECUA Self Insured	Employment related injury or accident to ECUA employees; TPA, Broadspire	Unlimited medical expense and prescribed loss of earnings of employee, as required by workers' compensation law
Excess Workers' Compensation Insurance	Florida Municipal Insurance Trust	Excess claim coverage	\$300,000 Stop Loss

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF INSURANCE
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Types of Coverage</u>	<u>Name of Company</u>	<u>Details of Coverage</u>	<u>Liability Limits</u>
Medical Insurance	United Healthcare	<p>All plans cover annual exams, preventive care, mental health services, and eligible inpatient and outpatient charges in participating facilities. Maximum out-of-pocket includes annual deductible.</p> <p>Primary Plan: \$750/1,500 deductible per calendar year \$2,750/5,500 out-of-pocket maximum per calendar year 80/20% coinsurance for major services after deductible has been met \$20/40 per office visit \$100 fee for emergency services \$10/35/70 pharmacy copayment for 31-day supply</p> <p>Buy-Down Plan: \$1,000/2,000 deductible per calendar year \$6,000/12,000 out-of-pocket maximum per calendar year 80/20% coinsurance for major services after deductible has been met \$35/35 per office visit \$200 fee for emergency services \$10/35/70 pharmacy copayment for 31-day supply</p>	<p>Primary Plan: Maximum Policy Benefit: Unlimited Mental Health & Substance Abuse Services, Outpatient: 0% coinsurance after a \$20/40 copayment per visit. Mental Health & Substance Abuse Services, Inpatient: 20% coinsurance after deductible has been met.</p> <p>Buy-Down Plan: Maximum Policy Benefit: Unlimited Mental Health & Substance Abuse Services, Outpatient: 0% coinsurance after a \$35/35 copayment per visit. Mental Health & Substance Abuse Services, Inpatient: 20% coinsurance after deductible has been met.</p>

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF INSURANCE
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Types of Coverage</u>	<u>Name of Company</u>	<u>Details of Coverage</u>	<u>Liability Limits</u>
Medical Insurance (Continued)	United Healthcare	Health Savings Account (HSA) Plan: \$2,000/4,000 deductible per calendar year; \$4,000/8,000 out-of-pocket maximum per calendar year 80/20% coinsurance for medical and pharmacy services 100% coverage for preventive services Discounted fees paid for illness/injury office visits and emergency health services \$10/35/60 pharmacy copayment for 31-day supply, after deductible has been met Network and non-network benefits \$750 employer contribution into Health Savings Account	Maximum Policy Benefit: Unlimited United Healthcare discounted fees are paid for medical and pharmacy services until annual deductible has been met. After deductible has been met, 20% coinsurance is required for these services, in-network. Mental Health & Substance Use Services, Outpatient: 20% coinsurance after deductible has been met. Mental Health & Substance Use Services, Inpatient: 20% coinsurance after deductible has been met.
Life Insurance	Standard Insurance Company	Basic Life Additional Life – optional Accidental Death & Dismemberment	Basic Coverage: \$50,000 or 1x salary, whichever is greater; doubled if death is caused by accident. Additional Life: 1x, 2x, 3x or 4x salary.
Dental Insurance	United Concordia	Diagnostic/Preventative Services – plan pays 100%; Basic Services – plan pays 80% ; Major Services – plan pays 50% Orthodontics (Adult & Child) – plan pays 50%; \$50/100 calendar year deductible for Basic and Major services	Calendar year maximum per covered person is \$1,000 or \$1,500 for Diagnostic/Preventative, Basic, and Major Services. Lifetime Orthodontic Maximum per covered person is \$1,000 or \$1,500.
Long Term Disability Insurance	Standard Insurance Company	60% of gross monthly income, pre-disability earnings 6-month elimination period 3-month elimination period is optional	\$5,000 maximum monthly benefit

OTHER REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Emerald Coast Utilities Authority
Pensacola, Florida

We have audited the basic financial statements of the Emerald Coast Utilities Authority (the “Authority”) as of and for the year ended September 30, 2011, and have issued our report thereon dated March 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is more than a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board
Emerald Coast Utilities Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 14, 2012.

This report is intended solely for the information and use of the Board, management, federal and state awarding agencies, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida
March 14, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
Emerald Coast Utilities Authority
Pensacola, Florida

Compliance

We have audited the compliance of Emerald Coast Utilities Authority (the “Authority”) with the types of compliance requirements described in the U.S. Office of Management and Budget (“OMB”) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Authority’s major federal programs for the year ended September 30, 2011. The Authority’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority’s management. Our responsibility is to express an opinion on the Authority’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority’s compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the State of Florida Office of the Auditor General, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida
March 14, 2012

**EMERALD COAST UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS
YEAR ENDED SEPTEMBER 30, 2011**

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Emerald Coast Utilities Authority (the "Authority").
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Authority, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal programs for the Authority expresses an unqualified opinion.
6. There are no audit findings relative to the major federal programs for the Authority which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

Federal Programs	CFDA No.
Congressionally Mandated Projects	66.202
Clean Water State Revolving Fund Loan	66.458

8. The threshold for distinguishing Types A and B programs was \$300,000 for major federal programs.
9. The Authority qualified as a low-risk auditee.

B. FINANCIAL STATEMENT FINDINGS

None.

C. FINDINGS AND QUESTIONED COSTS – FEDERAL PROGRAMS

None.

**EMERALD COAST UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2011**

There were no prior year audit findings.

MANAGEMENT LETTER

Members of the Board
Emerald Coast Utilities Authority
Pensacola, Florida

We have audited the financial statements of the Emerald Coast Utilities Authority (the “Authority”), as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 14, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters, our Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 14, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor’s reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The significant findings and recommendations made in the preceding annual financial audit report have been followed, except for the following item, which was included in both the 2010 and 2009 report.

Information Technology - Documentation and Controls

The small size of the Information Technology (“IT”) Department places limitations on internal controls that are applicable to the Authority’s information technology, such as segregation of duties, systems documentation, and some computer security procedures. While it may not be economically feasible to hire additional staff simply to achieve better controls, we recommend the Authority develop a long-term plan for the IT Department. During the year ended September 30, 2010, the Authority engaged a consultant to develop a written risk assessment, which included the IT department. This risk assessment should be utilized to support the Authority’s long-term goals and incorporate planning for risk based changes and improvements to be made that will resolve, or mitigate to the extent feasible, the existing control weaknesses. In addition, the Authority should periodically reevaluate the controls to ensure that material weaknesses do not develop.

Management Response

The Authority will make a risk assessment of our system and develop a long-term plan to incorporate improvements that will address existing control weaknesses.

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Authority complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Members of the Board
Emerald Coast Utilities Authority

- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in the notes to the financial statements. There are no component units.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Authority for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Section 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Board, management and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida
March 14, 2012